IS TRADE UNIONISM SOUND?

AA 000 962 029 5
UC SOUTHERN REGIONAL LIBRARY FACILITY

THE LIBRARY
OF
THE UNIVERSITY
OF CALIFORNIA
LOS ANGELES

IS TRADE UNIONISM SOUND?

A Suggestion for

OUTFLANKING THE POWER OF CAPITAL

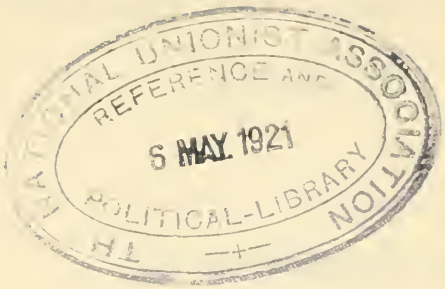
Is Trade Unionism Sound?

A Suggestion for

Outflanking the Power of Capital

By J. H. BUNTING

LONDON: BENN BROTHERS LIMITED
8, BOUVERIE STREET, E.C.4
1921



To my friend Mr. Fuller, whose assistance in the preparation of this treatise for publication has been invaluable.

ALL RIGHTS RESERVED

HARDING DEC 16 1940 LIBRARY SETS

PREFACE

Just prior to the close of the war the Garton Foundation published, for consultative purposes, a short treatise from my pen dealing with some aspects of our industrial difficulties. In response, several valuable criticisms were received. These have been carefully considered, and the treatise slightly revised in the light they brought to bear on the subject. I am deeply indebted to the Garton Foundation for providing the opportunity of obtaining the opinion of others on such a debatable question as the one examined, and to all those who sent criticisms which have enabled me to see the position from points of view other than my own.

Before the publication of the consultative edition a short outline of the theory had been prepared with the assistance of my nephew, Dr. W. B. Christopherson. This was read by the late Sir Roland K. Wilson, Bart., and the late Professor W. Smart, and the present treatise is the result of their criticism and advice. If the work proves to be of any assistance towards a solution of our industrial problems, credit is due to them.

J. H. B.

Swaffham,
April 6th, 1921.

411889

PUBLISHERS' NOTE

This remarkable book by an unknown author was printed and privately circulated during the war by the Garton Foundation. Competent judges, including several prominent labour leaders, agreed that it expressed an argument which required to be heard and answered. But it was felt to be inadvisable to widen the area of controversy so long as the war was in progress, and the further publication of Mr. Bunting's work was therefore suspended. Any reasons for silence have now completely disappeared. Indeed, the need for a fuller discussion of the problem of wages and employment is so urgent and imperative that I sought the author's permission to undertake the present edition.

This book will be misunderstood if it is regarded as an attack on labour. So far from that, it is an indirect attack on capital and is a fearless attempt to establish a permanent improvement in the lot of the workers. If its argument is sound it applies with equal force against every attempt to destroy that flexibility of price which has been the common feature of every market since the world began. Economic development for some years past has been in the direction of the fixed price, whether for an hour's work or a loaf of bread. Government departments, trade unions and manufacturers' associations have all appeared to believe that by the application of force through Acts of Parliament, strike settlements or price agreements, they could alter the natural laws which promote and govern the exchange of goods and services between buyers and sellers. Mr. Bunting challenges this position, and his challenge, thrown down at a moment when the efficiency of many of these devices is beginning to be in doubt, and when the supposed beneficiaries of restrictive arrangements are themselves questioning their value, will at least suggest to those who believe in these things the need for their further examination, and if possible justification.

E. J. P. B

March 1, 1921.

SYNOPSIS

PAGE

CHAPTER I. — INTRODUCTORY. THE PROBLEM 1

CHAPTER II. A SHORT REVIEW OF RECENT ECONOMIC HISTORY. 10

Facts revealed and created by the war: (*a*) discovery of industrial capacity; (*b*) enormous destruction of wealth (par. 1)

Conditions prior to and following recent wars—Wages—Capital—Industrial unrest (pars.2-12).

CHAPTER III. EMPLOYMENT 17

False view that demand is strictly limited—Relation of worker to employer and capitalist (pars. 13-17).

CHAPTER IV. WAGE—I. 20

Immaterial wage — Relative and real wage — Definition of wage—Definition of personal and impersonal service—Proportion paid to each—Division only approximate—Workers as the employers (pars. 18-28).

CHAPTER V. WAGE—II. 26

What capital includes incomes from skilled occupations (pars. 29-30).

Half total income paid for use of capital—Reasons why so much is paid (pars. 31-36).

Effect of increase quantity on exchange value—Two qualities or functions of capital—Possibility of vast increase — Falling interest checked by wars (pars. 37-40).

Effect of increased total production on distribution and the workers' share (pars. 41-43).

PAGE

CHAPTER VI. WAGE—III. 38

Why the workers pay so much for the use of land—Sums paid—What governs the price—Economic rent—Site values and growth of population—Need for fresh flow of capital (pars. 44-50).

CHAPTER VII. WAGE—IV. 43

Why the workers pay so much for employer's service—Any artificial increase in wage borne by the community (pars. 51-52).

Competition between employers not due mainly to pressure of need—Attractions to employers: (*a*) Material (uncertainty of profits, successes and failures) (pars. 53-58).

(*b*) Immaterial and moral—Inefficient employers—What governs profits—What tends to raise profits (pars. 59-68)

CHAPTER VIII. DEVELOPMENT OF OUR PRODUCTIVE POWERS 54

Progress—Effect of price on production—Effect of higher prices on: (*a*) money; (*b*) production—Forces of hunger and want keep down prices (pars. 69-75).

What governs the total monetary supply—Disastrous effect of artificial rise in wages on monetary demand (pars. 76-79).

Vital distinction between willingness to sell and willingness to buy—Employers and increased monetary supply—Advantage to community of willingness to sell (pars. 80-82).

Wages information scheme—Suggested policy—Good wages ensured (pars. 83-84).

PAGE

Power of the worker over labour market conditions —Present mobility of the workers compared with past (pars. 85–86).

Necessity for better relationship between the classes—Great increase in rate of interest caused by the war—Necessity for speedy reduction—A fallacy responsible for the spirit of distrust—How it can be removed—How to increase employers' efficiency (pars. 87–98).

CHAPTER IX. ALTRUISM 77

An appeal to employers—Solution to the problem on altruistic lines (pars. 99–102).

CHAPTER X. DISADVANTAGES OF COLLECTIVE BARGAINING 85

Good intentions of the trades unions—Collective bargaining means increased competitive pressure on unprotected workers; thus causing lower wages—Other bad effects of collective bargaining—Unequal proportion of wealth diverted to the capitalist—Great loss in total production caused by such large numbers being below the "poverty line"—Losses caused by strikes (pars. 103–109).

CHAPTER XI. ADVANTAGES OF AN OPEN MARKET 91

Speedy advantages of an open labour market—Set-backs quickly made good—Salutary forces: (*a*) increased monetary wages; (*b*) improved productive capacity (pars. 110–112).

PAGE

CHAPTER XII. INDUSTRY AND INTERNATIONAL RELATIONSHIPS 94

International troubles frequently due to economic causes—Armies and navies thus needed to enforce rights to particular markets—Cause of the war believed to be mainly economic—Spirit of patriotism applied to production would secure international and economic peace and prosperity—Economic burdens would disappear with jealousy and friction removed (pars. 113–117).

CHAPTER XIII. INDUSTRY AND FUTURE WELFARE 97

Excessive taxation to relieve burdens reacts on workers—Some form of sacrifice involved in any real unity (par. 118).

Is Trade Unionism Sound?

A Suggestion for

Outflanking the Power of Capital

CHAPTER I.—INTRODUCTORY. THE PROBLEM.

The late war has demonstrated very clearly the slender chance of success and the terrible risks involved in a frontal attack on a foe strongly entrenched and supported by many rear defences. It may have been deemed necessary in some cases to risk fearful losses in such a venture, but no commander would have dreamed of such an attack if he knew that the foe had an unprotected flank and that with very slight sacrifice he could outflank him and force him to surrender.

Every thoughtful worker realises the importance of the part capital plays in assisting production. At the same time it is only too true that, like Nature's forces, capital can become a bad master instead of a good servant, or, to use the metaphor implied in the sub-title of this treatise, become a foe firmly entrenched. The purpose of the writer is to show that the power of capital* is not impregnable and that, while frontal attacks are futile, a flanking movement is possible; in other words, that there is a way by which wages can be permanently increased and prices lowered. What has been the effect of a direct attack on the forces of capital in the past? An examination of the economic history of this country during the first decade of the present century shows that when the price of wages has been forced up by collective bargaining the higher price has speedily reacted in an adverse manner on the community.

* In using the term "power of capital" we refer to the tyrannical power it may become, under certain conditions, in the hands of one small section of the community, rather than to its beneficent power in assisting production for the benefit of all.

In recent years it has passed almost as an axiom that the gradual improvement that has been taking place in the wage and general conditions of the workers during the past hundred years has been due to Trade Unionism and the policy of collective bargaining. Far be it from the writer to depreciate the high ideals that have inspired the efforts of the unions in this direction in the past. Their influence has resulted in the inauguration of many much needed reforms in the interests of the workers. At the same time the truth must be faced, even though it may seem to some treasonable and unpalatable, if we are to take the right course for the future. The fact is that any permanent increase in the real wage of the worker has been due to the operation of concurrent influences that have had little or no connection with Trade Unionism. (A scheme is suggested later on by which the worker's material welfare can be improved and the machinery of the trade unions utilised to the greatest advantage.) It is the improvement in our industrial processes and methods of production and organisation, with the resultant cheapening of the products of industry, that is responsible for the improvement that has taken place. Trade Unionism has grown up alongside of industrial development, and it is not difficult to see how a movement that looms large in the eyes of the worker should claim credit for much of the improvement that has sprung from an entirely distinct set of causes. Those who are so ready to say that trade unions must be judged by the result, do not attempt to explain why the wages of the workers before the war did not rise to anything approaching the extent that our increased facilities would have warranted. The table of wages and prices given by Mr. J. A. Hobson shows that wages (as measured by the price of food and drink) actually fell during the first decade of the present century.* Trade Unionism was, if anything, more active than ever before ; we had large combinations of the workers formed ; we had strikes to enforce their demands. Why was it that during this period real wages actually fell—in spite of the fact that our methods of production continued to improve ? The answer to this reveals the great weakness of trade union methods of attacking the power of capital. By the methods employed it is possible for the workers to obtain a higher wage than they would immediately receive

* "Gold, Prices and Wages," J. A. Hobson, p. 119.

in a free and open competitive market, but there is nothing to prevent the employers from passing on the extra cost to the consumer. When this happens, as is usually the case, the workers console themselves by the fact that, as they are the purchasers of only a part of their product, they stand to gain that part of the increased price that is paid by the other section of the community. Unfortunately for the workers, the problem is not so simple as that. The fact is often overlooked that any increase in price means a virtual decrease in the quantity of money. (Further on, we shall show the disastrous effect of this lessened monetary, *i.e.*, effective, demand on every class—particularly on the workers.) A moment's thought will show that, if prices are doubled, the same sum of money will only purchase one-half the quantity of goods that can be bought at the lower price: two shillings are required to do the work of one. If, therefore, other factors are constant, the quantity of money is virtually reduced in exactly the same degree as prices are advanced, since money is merely a token which has only a relative value corresponding to the fluctuation in price: in other words, money is only worth what money will buy. During the past few years the Government increased the currency to tide us over a difficult crisis. It was this increase in the amount of money in circulation that increased the effective demand and, for the time being, enabled more goods to be produced and more labour to be employed. The well-nigh inevitable result was seen in increased prices—as must follow unless there takes place a corresponding increase in production. Our Government now feels compelled—we believe, wisely—to deflate the currency. Now just as the inflated currency *increased* the effective demand with all its attendant benefits, in the same way, the result of a deflation of the currency is to *lessen* the effective demand with the attendant evils of trade depression and unemployment. This serious loss can be avoided or intensified according to the attitude of the community. On the one hand, they can nullify the effects of the deflated currency by voluntarily producing more goods and selling their product at such a price as can be obtained in an open market. By this means prices are brought down which neutralise the deflated currency and enable the diminished sum of money to do the work of the larger amount by natural means. On the other hand, they can stubbornly resist any attempt to prevent a fall in the

price either of goods or labour. In some cases this may be done by the traders being unwilling to make a sacrifice to meet the new conditions, or by the workers attempting to prevent a fall in wages; such measures are bound to aggravate the losses involved in any attempt to return to more normal conditions. Citing a modern writer: "We can either do as we should or be compelled to do as we would not." The more we force prices up the greater must be the restricting action of the lessened effective demand to pull prices down. Granted that the result of collective bargaining is either to increase prices or hinder them from falling, what effect has higher prices on employment, production and distribution?

The Effect of Higher Prices on Employment.

Commercial employment depends entirely upon the extent to which the needs and desires of the community can become an effective demand for the product of the workers. On the one hand there may be great numbers who would be willing to work, but for whose service there is no demand, while on the other hand the purchasing power of the community is so restricted through high prices that they are prevented from purchasing what they would otherwise buy. It is this restriction of the effective demand that is the sole cause of economic unemployment. What is it that prevents these needs and desires from becoming an effective demand while, at the same time, there are potential forces of labour to meet it? The hindrance is high prices. Unemployment (barring incidental unemployment, which is only fractional) is no accident. Every forceful increase in price, by lessening the effective demand, increases unemployment. The more prices are forced up the greater must be the counterbalancing factor to keep prices down, if we are to have a monetary base of value at something approaching a constant level. The counterbalancing factor is provided, as we shall endeavour to show, by the limited currency which, as prices advance, eventually lessens the effective demand. The action is automatic, but, through the elasticity of our monetary system, is frequently delayed; in spite of the delay the result is as certain as the rise or fall of the tide. Every forceful increase in wage, unless accompanied by a corresponding increase in production, or by an increase in the competitive pressure between the employers or between the capitalists—which it rather tends

to lessen than to increase—means more unemployment and less production.

The Effect of Higher Prices on Production.

Higher prices, by lessening the effective demand, lessen the total production and thus diminish the amount of wealth available for distribution. During the past 150 years a vast change has taken place in our industrial life and productive resources, which has materially altered many of our economic problems. In the earlier part of that period poverty was due to the great amount of human energy required to produce the bare means of existence. To-day, we have such productive facilities in many trades, a man with the aid of power can produce a hundred times more than he could have done 150 years ago. With such facilities there is little doubt that, if the vast need and desire for goods became an effective demand, we could soon double, if not treble, our pre-war annual production of wealth, without long hours of toil or excessive physical exertion. The fly in the ointment is the limited effective demand. Under the conditions that exist to-day, our total production is controlled, not by our productive facilities, but by the limited effective demand. No matter what facilities for production a manufacturer may have or how much suitable labour may be awaiting employment; no matter how much his products may be needed, he cannot go on producing his goods in excess of the effective demand. The demand to be effective has to be accompanied by a monetary payment, or by a reasonable anticipation of such a payment. The higher the price the smaller is the relative supply of money available to enable the needs and desires of humanity to be developed into a larger effective demand. Were it not for our credit facilities, which give an immense amount of elasticity to our monetary system, the full effect of an increase in price would be felt immediately, and would be reflected at once in the lessened demand and reduced production.

The Effect of Higher Prices on Distribution.

An increase in price has two exactly opposite effects. It relieves competition in one direction and increases it in another: it results in a lessened demand for labour and an

increased demand for the use of capital. The result of the pressure of competition in these two directions is lower wages for the worker through the lack of demand and a higher rate of interest for the capitalist through the shortage of money which is brought about by the same evil of higher prices. The reason for the gross inequality of distribution, therefore, is quite clear. When there is only an effective demand for the service of one man there are usually two or more workers after the same job. Again, when anyone has a pound to lend there are two or more anxious to hire it. Thus, those who have their personal service to lend, get underpaid, and those who have their impersonal service to lend, get overpaid for the use of it. Every increase in price tends to increase the rate of interest on money, and, as money is the representative of capital, it tends eventually to increase the price that is paid for the use of all forms of capital. It thus leaves a smaller margin of wealth to be distributed in wages.

Distribution in Compliance with Law.

We all realise that, although occasionally we may get a snowstorm in the summer and a spell of mild weather in the winter, yet, on the whole, our climate is governed by great natural laws that bring round the changing seasons in their proper order. We also understand that, although there are numerous cases of fraud, false pretences and robbery, these cases are but the exceptions to the general respect that is paid to the rights of private property. Likewise, we hold that, although "force, cunning, chance and favour" do in some cases violate the law, on the whole distribution is made by economic law and not according to the whim, fancy or autocratic will of certain individuals. There is a growing tendency in many large industries towards the formation of trusts and combinations, for the purpose of increasing their gains. In the popular mind these are conceived as a menace to the interest of the community—and of labour in particular. The report issued by the Commission on Trusts (which was not by any means prepossessed in their favour) showed that, as a rule, they effect great economies and provide many advantages. This enables them to produce better goods, sell at lower prices, and pay better wages. It should be recognised that any extra profit they receive under these conditions is

net obtained at the expense of the community. It is another question whether the community should not receive a larger portion of the benefits derived from the economies thus secured. We believe that it should. The best safeguard it can have against any imposition on the part of the trusts, and one which would tend to give the public a larger share of the gains secured by combination, would be the creation of a large supply of liquid capital at a low rate of interest. We shall seek to show that this would be achieved by the acceptance of the proposals laid down in this treatise. The potential competition that this would engender would more than ever play its part unseen in preventing excessive profits. Further, the oversight of their accounts by the Board of Trade would provide additional protection.

If we are correct in our assumption that it is the law of supply and demand that governs the relative degree of competitive pressure imposed upon each individual when selling his service, and thus regulates the proportion of the total production he receives, we must seek to establish a more equitable degree of competitive pressure between those who render various forms of service to the community, if we are to secure a more equitable distribution of the products of industry. We have just stated that the reason for the gross inequality of the distribution is because when there is only an effective demand for the service of one man there are usually two or more workers after the same job, while, at the same time, when anyone has a pound to lend there are two or more anxious to hire it. We are going to show how the workers can greatly modify, if not completely reverse, the present harmful competitive conditions. We shall seek to show they can greatly increase the total production and, apart from exceptional circumstances, provide employment for every willing worker. We shall show that, as production is increased and prices fall, capital so far from being the master of labour will become more and more its servant.

Granted that employment depends upon the willingness of the various members of the community to exchange their service for a part of the product of the service of others, it is desirable that everything possible should be done to remove any obstructions and to facilitate such exchange. For example, many fear that, if such safeguards as at present exist are abolished and they sell their service freely in an open market, they will be at the mercy of the employers. Later on, we are going to suggest a scheme that would

protect the workers and give them the opportunity of selling their service at the highest market price.

Immaterial Factors in Industry and Patriotic Incentives.

Although for purpose of argument we have treated labour as being akin to commodities in so far as it relates to the laws of supply and demand, we are well aware of the fundamental distinction between them, although even yet it is not always recognised.

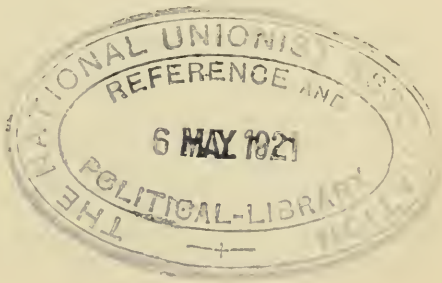
The wages question is not alone responsible for the present industrial unrest. It is due, also, to the awakening to the sense of the dignity of manhood. Men are realising everywhere to-day this new spirit which refuses to be content with the old conditions. They no longer feel that they should be the slaves of work, but its masters; not the victims of some remorseless industrial machine, but controlling forces in the life of the world. We have every sympathy with this new spirit and outlook. In due course we shall suggest a scheme for giving the workers an opportunity of having a share in the control of their conditions of employment and in the profits of their industry.

There are solemn moments in the history of the nations when they arrive at a "parting of the ways"; when one of two paths must be taken, and when upon the choice made the destiny of a nation depends. At such a time the issue is often between the interest of the moment and the ultimate benefit; between the easy path that leads sooner or later to national ruin and decay and the hard road that ascends to the uplands of success and prosperity. If the nation's gaze is fixed upon the immediate view, it will take the easy path; if it lifts its eyes to the distant prospect and studies it carefully, the struggle upwards will appear insignificant when compared with the results to be achieved. None will deny that England to-day is at the "parting of the ways"—at all events, as regards her industrial and commercial future. The war should have taught us that our individual interests are inseparably bound up with the interests of the community. Thousands of the noblest Sons of our Motherland have denied themselves all worldly comfort, and have made the supreme sacrifice, in their effort to sustain the honour and integrity of their country. We must never forget the debt we owe them. If we are willing to honour their memory by evincing the same spirit of patriotism

and service for our country, now that the exigency of war is over, we have it in our power, not only to make good all the material losses of the war, but also to lift our national industrial life to a hitherto undreamed-of height of prosperity. Poverty could be blotted out, and we should all share in the wealth that could be produced. If, however, we all seek to grasp the largest share of the national production that we can obtain by forceful methods, our country is doomed and all alike will suffer in the general ruin.

We are sure that, if the truth and the possibilities of the industrial situation could be brought home to the minds of the workers, the great majority would respond to the higher call of duty. In their heart of hearts the British workmen are as sound as the goods they can produce; but they fear oppression and desire justice. They would be the last to inflict willingly hardship and suffering on others.

The argument set forth in this treatise is an attempt to reveal the great principles that underlay success. We believe they form the quiet highroad which if followed fearlessly will lead to national peace and prosperity: to a society formed as it is to-day, "and yet how different. Still individuals and communities, but the individual always serving the community, and the community always protecting the individual; still city and country life, with all their manifold pursuits, but no leading into captivity and no complaining in our street; . . . still richer and poorer, but no thoughtless luxury, no grinding destitution; still sorrow but no bitterness; still failure but no oppression," but all united in "the service of mankind."


REFERENCE
6 MAY 1921

CHAPTER II. A SHORT REVIEW OF RECENT ECONOMIC HISTORY.

(1) Two Great Facts Revealed by the War.

There are two outstanding facts revealed by the late war that will affect considerably the future material prospects of the labouring community: one beneficially, the other adversely; the first fact indicating a possibility of higher wages, the second, a probability of lower real wages.

(*a*) *The Discovery of our Vast Industrial Capacity.*

The first fact which we want to consider was stated in the *Spectator*, February 19th, 1916, as follows:—

"The war has shown us that our industrial capacity is enormously greater than we had ever before dreamed. We have been able to detach from industrial work probably at least half of the able-bodied men who were engaged in that work before, and we have sent these men to fight in the trenches or to prepare for so fighting. Beyond that, we have built up vast new industries merely for the manufacture of munitions of war. In addition to this we have succeeded in maintaining for the masses of our population a higher standard of comfort than they have ever enjoyed before, and also—though the fact has not been fully appreciated—in maintaining an export trade at the level reached fourteen or fifteen years ago. This remarkable achievement is primarily attributable to the mental and moral forces which have stimulated us all to increased exertions.

"The question which has to be solved is whether it is not possible to make permanent use of this increased industrial capacity. At present our increased capacity is being used for the purpose of destroying our enemy, and no better use could be found. But when our enemy is destroyed, what are we to do with the increased power which we have proved ourselves to possess?

"The answer is that we must so develop the spending power of our own people that they will be able to give full employment to their own energies. That is another way of saying that we must raise the standard of comfort of the masses of the population. Probably 20 per cent. of our population have too little food and too scanty clothing. At least 60 per cent. live in houses that are unduly small, and have holidays that are too short. There is no real necessity why these evils should continue; they are due to moral rather than to economic causes."

(*b*) *The Enormous Expenditure and Destruction of Wealth and its Incalculable Effects.*

The second fact, indicating a probability of lower real wages, is the enormous expenditure and destruction of wealth involved in the war, and the resulting great increase in the price paid for the use of capital.

In the first place it is difficult even now to estimate to what extent the average price paid for the use of capital may be increased by the wholesale destruction of wealth.

In the second place it is difficult to assess the precise effect of the higher rate of interest on the wage of the workers, although it is certain that, given pre-war conditions, the higher rate of interest must result in a lower wage for the workers.

In the third place, and most important, it is at present impossible to say to what extent we shall take advantage of the facilities of production that the war has been the means of proving ourselves to possess. On the one hand, if these were fairly utilised we should so increase the total production that the rate of interest would quickly fall, which would mean that the capitalists would receive a smaller proportion of the increased production, leaving a much larger balance of wealth to be divided between the labouring community. If this is to be the result of the war any material disadvantage caused by the war will soon be far more than counterbalanced, so that the prospective loss will be turned to future gain. On the other hand, if the opportunity is missed, it is quite possible that the higher rate of interest, together with the dislocation of our industrial conditions, may increase the already serious industrial unrest, cause lower wages, and result in an industrial revolution: making confusion worse confounded.

After we have taken a brief review of our recent economic history, for the purpose of seeing the effect of the past wars on the rate of interest, and of the rate of interest on wage, we will endeavour to investigate some of the principles that govern employment, production, and distribution. The purpose of this investigation is to see if a satisfactory way can be found whereby (*a*) something approaching the full result of our increasing facilities of production can be obtained; (*b*) a larger wage secured for the workers; (*c*) the good relationship, which in the

presence of a common danger has been created among the classes, can be preserved.

(2) Effects of Recent Wars upon Industrial Conditions.

A brief review of our recent economic history reveals the fact that, for twenty years prior to the last Boer War, a gradual improvement took place in the condition of the workers of this country; and there is no reason to suppose that it would not have continued but for that and other wars.

(3) The Extent of the Improvement Prior to the Boer War.

Mr. J. A. Hobson in his work "Gold, Prices and Wages" gives a table showing the official measurements of wages and food prices in Great Britain from 1879 to 1898, *i.e.*, to the last complete year before the Boer War. Wages rose 12 per cent. and the price of food and drink fell 27½ per cent. For example: we may say that wages rose from 25s. to 28s., and the food and drink that would have cost 25s. in 1879 would only cost 18s. 1½d. in 1898, showing that the workers could obtain in exchange for their labour in 1898 more than half again as much food and drink as they could have obtained in 1879. The price of boots and clothing also fell very considerably during that period, and the lower rate of interest, as seen by the drop in the interest-yield from current investments in consols, made possible the building of better houses for the workers at a commercial rent.

(4) The Cause of the Improvement.

During the period 1879 to 1898 our industrial facilities were gradually developed and our total production was increasing year by year. This, together with the absence of any great military expenditure, enabled a larger amount of savings to be accumulated in the form of capital; thus lowering the price paid for the use of it: as shown by the fall in the average yield from current investments in consols and first-class investments. For the year 1879 the average yield from current investments in consols was £3 1s. 6d. and by the year 1898 it had dropped to £2 9s., showing a fall of 20 per cent.; that is to say, that the capitalists,

owing to the increased accumulation of capital, received in the latter year from the current investments in consols only four-fifths of what they received from the same amount in the former year.

(5) The Improvement was not Continuous nor Equal all over the Labouring Community.

It is true that during this period (1879 to 1898) there was by no means an even advance in the improvement of the material welfare of the labouring community. The usual fluctuations occurred in prices, wage and employment. It is also true that all wage earners did not enjoy the same benefit. In the agricultural districts they did not reap the advantage of higher wages, but rather the reverse; they did, however, in common with other workers, enjoy the benefit of lower prices. Had the wage of the agricultural labourers increased proportionately or had it not declined, the average increase in the wage would have been much greater than shown above.

(6) The Immediate Effect of the Boer War on Wages.

The year 1900 saw the workers at the zenith of their prosperity—a condition of things only exceeded by the boom in wages and employment enjoyed after the late war. There was an added increase in the average wage equal to a rise from 28s. to 30s. during the two years 1898–1900, while, during the same period, the price of food and drink had fallen 2¼ per cent., so that 17s. 9d. would buy in 1900 what cost 18s. 1½d. in 1898.

The continuation of the fall in the price of food and drink was doubtless due to the unspent influence of the lower rate of interest on capital immediately preceding. But the rise in wages, while partly due to the same influence, was also partly due to the artificial stimulation given to employment during the early period of the Boer War.

(7) What Course did Wages Take after the Boer War?

From the year 1900 to 1904 there was a slight fall in the rate of wages, and from that date to 1911 a recovery to what the wage earners received in 1900, so that we

may say that the monetary wage of the workers during the period 1900–1911 remained practically stationary. But during this period there was an upward movement in the price of food and drink, so that what would have cost 17s. 9d. in 1900 cost 19s. 9d. in 1911. Thus, the workers, in exchange for their labour as measured by the price of food and drink, received about 10 per cent. less at the close of this period than at the beginning.

(8) The Effect of the Boer War on the Price Paid for the Use of Capital.

The cost of the Boer War was £290,000,000, and it was followed by a great increase in our national expenditure. This expenditure of wealth left less fresh capital to compete in the market for investment and thus tended to increase the price which had to be paid for the use of it. The average yield from current investments in consols rose from £2 9s. for the year 1898 to £2 18s. 3d. for the years 1901–2, falling to £2 15s. 1d. for 1903.

(9) The Effect of the Russo-Japanese War on the Price Paid for the Use of Capital.

The cost of the Russo-Japanese war in 1904–5 was just over £500,000,000, making another great drain on the world's current savings. Doubtless, this was a factor, not only in stopping the fall in the interest-yield from current investments, but also in raising the average yield from consols to £2 16s. 2d. for the year 1904–5.

(10) The Effect on Wages of the Variation in the Price Paid for the Use of Capital.

Mr. R. A. Macdonald, in the *Statistical Journal*, March, 1912, writing on the rate of interest since 1844, stated :—

"The rate of interest upon current investments in consols and first-class debentures in the country steadily fell for more than thirty years preceding 1896, and since that time they have risen to an extent of at least 25 per cent."

Mr. J. A. Hobson, referring to this statement, says :—

"The rise in the rate of interest on capital thus synchronises closely with the fall of real wages. This can be no accident. Its meaning is unmistakable. Treating Capital and Labour as participants of the national dividend, it can only mean that a shift in the distribution has taken place, labour taking less and capital more. The hire price of capital has risen at least equivalently to the rise of general prices; the hire price of labour has either fallen or has not risen at all."

(11) One of the Indirect Results of the last Boer and other Wars.

The unfortunate shift in the distribution of our total production which left the workers poorer, was doubtless the main cause of many of the strikes that took place about the end of the first decade of the present century.

(12) The Effect of Industrial Unrest on Investments.

This industrial unrest, that, once or twice, assumed threatening proportions, had, for the past few years, been simmering like an active volcano: ready at any moment to break forth and spread waste and destruction. It is therefore not surprising that less of our savings had been invested in our home market thus threatened, and that the average income from current investments had continued to advance. The year 1913 (the last complete year before the late war) saw a yield from current investments in consols of £3 8s., which high rate was doubtless partly caused by the expenditure of £240,000,000 on the Balkans war of 1912-13.

This brief review appears to indicate that the price which has had to be paid for the use of capital at different times has affected greatly the wage of the workers. When we come to consider distribution we shall find that the price paid for the use of capital is the *great* factor in determining how much the workers receive of the total wealth produced. We shall find, too, that the price paid for the use of capital is governed, not so much by what it produces, as by the quantity of capital on the market.* In view of this, the importance of the two outstanding facts already referred

* Capital has three main forms, *i.e.*, fixed, semi-fluid and fluid. By the latter we mean money. As money represents the two other great forms, an increase in the rate of interest means an eventual increase in the price paid for the other forms of capital. It will be seen later that to increase prices is to lessen the monetary supply and raise the rate of interest.

to, which have been revealed by the war, is vital to the workers. It will be seen that the wage of the workers depends upon the total production, and upon the quantity of capital on the market, and that this in turn depends upon the extent to which we utilise our facilities of production and upon our habit of thrift.

During the period 1879 to 1898 we have seen that by increasing the total production and accumulating a surplus of wealth, the price paid for the use of capital dropped 20 per cent., and the wage of the workers, as measured by the price of food and drink, increased to more than half as much again. This was accomplished when our productive powers were not so fully developed, nor the importance realised of increasing our total production and our store of capital.

Is it too much to suppose that, if we were to organise and to utilise our productive powers to the best of our ability, we could, without any undue strain or excessive hours of labour, double our pre-war total production in a comparatively short period of time? Further, if we were to utilise a fair proportion of this additional production for the purpose of aiding future production, we should so lower the price paid for the use of capital as to more than double, perhaps treble, the total real wage fund of the labouring community.

CHAPTER III. EMPLOYMENT.

(13) The Power of Knowledge.

If we are anxious to avoid the evil effect of the great material losses caused by the late war, and to obtain a fair result from the marvellous powers of production that we have proved ourselves to possess, we should endeavour to understand something of the way by which this can be accomplished. Doubtless a large proportion of the present-day evils could easily be avoided if we only had the knowledge which would banish many of our preconceived false ideas and would enable us to adopt the proper policy. To-day, many of the terrors of tubercular trouble are being overcome by a more enlightened method of treatment. To have even suggested such a method fifty years ago would have been considered almost a sign of madness. If the policy we are about to consider, for finding employment for all and for increasing the wage of the workers, may seem, at first, as foolish as the open-air treatment appeared to the old school of medical practitioners, it is only fair to request that judgment be suspended until the whole argument has been considered.

(14) False View that the Demand for Goods and Employment is Strictly Limited.

There are a great many people who honestly believe that there is only a limited amount of employment, and that if one man does an extra amount of work, or produces an extra quantity of goods, he is robbing his fellow workmen of the opportunity of finding employment. This view, that the amount of work to be done is strictly limited, arises from a false notion as to how employment is provided, as well as a false notion as to what the workers require when they are asking for employment. The fact is overlooked that as there is no end to a perfect ring so there is no end to employment; in every case where a worker is employed at a wage he is at the same time providing employment for others, and the more he produces the more there is to divide. When a worker demands a larger share of the product of the service of others than he can readily

receive and stands out for a higher wage, he breaks a ring, because when he ceases to sell his service at the same time he ceases to buy the service of others. No restriction of production will permanently provide work for others; it will only increase the price of products and thus make it more difficult for others to be employed at a satisfactory wage. The difficulty of providing employment for all is the difficulty of satisfying each individual that he will obtain an adequate share of the product of the service of others in exchange for the product of the service he renders. We will assume that a body of men qualified to perform certain kinds of labour are unable for some reason or another to obtain employment at what seems to them a satisfactory wage: let us say 70s. per week. They may adopt one of two courses. On the one hand, they may continue unemployed. On the other hand, they may accept the best wage they can freely obtain; let as say 66s. per week. Please bear in mind that we are now only concerned about the question of employment and are not considering in any way the rights or wrongs of the supposed case. This is given simply to illustrate the effect on the employment of others when some of the workers accept or decline employment at a wage that may be lower than what is considered to be the standard rate. When we deal with the question of wage we think it will be seen that the ultimate result of readily accepting the highest wage that can be freely obtained, unreasonable though it may seem, will be speedily advantageous to the workers.

What is the result of their decision to accept the 66s. offered? They immediately have the power to demand 66s. worth of the services of others, thus providing employment for makers of boots, clothing, producers of foodstuffs, etc., who, likewise when employed, will demand in return a part of the product of the men in question as well as the service of other workers. We will assume that they decline the offer of work at the lower rate and remain unemployed. They would thus be unable to provide employment for the makers of boots, clothing, providers of foodstuffs, etc., who, in their turn, would be to that extent restricted in their demand for the labour of the men in question.

(15) Employment is Exchange of Service.

Employment is simply the exchange of the service of one (or rather, the product of the service of one) for part

of the product of the service of others, and there is practically no limit to the demand for labour other than the limit men themselves impose by declining to exchange freely the product of their service for the product of the service of others.

If, in order to provide employment for all, it would be necessary to assure each individual that he would receive what he thought to be an equivalent share of the produce of the rest, in exchange for the service he were asked to render, the task would be a very hopeless one. If, on the other hand, it were shown clearly to the workers that, by being willing, even at the outset, to accept the highest price for their service they could readily obtain, they would so increase production and assure an approximately just distribution, as to receive a much larger amount of wealth than by any other method, they might be persuaded to exchange freely their service and thus provide employment for all.

(16) Would not the Worker be at the Mercy of the Employer and Capitalist?

Many, however, will at first think that to ask the workers to sell freely their labour for the highest price they can readily obtain is to ask them to commit economic suicide. The employers, they say, would be sure to offer the workmen the lowest possible wage, and although it might enable all to obtain some kind of work, it would only be under the poorest conditions and for the very lowest rate of pay. Is it fair to ask that rights so hardly won should be so easily surrendered? Would not all the extra wealth produced gravitate to the pockets of the capitalist and employer? Such a view is natural and plausible and would be justifiable were it not for certain considerations.

(17) Counterbalancing Factors.

There are some counterbalancing factors which would effectually prevent the employers from taking any undue advantage of the non-resisting attitude of the workers. These factors would so operate that, so far from paying a lower wage, the employers would be soon compelled to pay a very much higher rate of wage in order to obtain the labour they would require. In order to understand this we shall have to consider some of the principles that govern both the amount and the distribution of production.

CHAPTER IV. WAGE—I.

(18) Immaterial Wage.

There are two distinct forms of wage—material and immaterial. Although the nature and subject of this treatise compels us to give the first place to the consideration of material wage, yet it is the immaterial wage that is of primary importance if the finest spirit of industry is to be increased, intensified and maintained. By immaterial wage is meant the conscious appreciation of work well and truly done and the satisfaction that comes from realising the value to the whole community of the service we are rendering. No mere material reward should be sufficient compensation to those who leave God's sunshine and descend into the bowels of the earth, braving its dangers and discomforts, in order to provide a store of coal. Behind it all, though often but faintly realised, is the vision of the comfort that is being brought to the homes of the people, the power that is being supplied for the production of wealth, and the means of enjoyment that would be impossible without such sacrifice and exertion. It is this conscious realisation of purpose in our work that alone can invest it with abiding pleasure and satisfaction and bring the truest reward. Whoever misses this reward loses by far the best part of his wage, whatever may be the monetary compensation he may receive. Whoever gains it is lifted out of the sphere of "dumb, driven cattle" and discovers that in such service he is finding his truest life. In giving we receive "good measure, pressed down and running over."

(19) Monetary Wage only Relative. Real Wage the Product Received for Service.

What is material wage? It is true that wages are usually calculated and paid on a monetary base, and the workers consider that the price they are paid for their labour is the meausre of reward they receive. It is, however, quite apparent to all that, if their monetary wage remains stationary while the price of commodities rises, they are not getting so much for their labour under such conditions

as they were before the advance in prices. Even if the monetary wage increases correspondingly there is no real advantage, since the spending power of the money is reduced accordingly. It is also very clear that although money may be useful in settling accounts and for providing means of exchange, yet by its own unaided sufficiency it will not provide us with clothing, supply us with foodstuffs or shelter us from storms. These and all other benefits the workers receive in exchange for their labour are the product of their own service and the service of others, and, as such, constitute the real wage the workers receive.

(20) Profitable Production the Employers' Aim.

It is frequently thought that we are paid for our physical and mental service, whereas, we are paid for the product of our service. What employers require is the product of service, not the mere fact that so many men shall have worked so many hours. It really matters little to the employers how long their employees work, or how much or how little they exert themselves so long as they produce plenty of goods that can be profitably sold.

(21) Definition of Wage.

In the previous chapter we saw that employment is the exchange of service. Wage, then, can be defined as that portion of the product of our own service and of the service of the rest of the community that we receive back in exchange for service we have rendered, although for convenience of exchange it is paid in money.

(22) Difference Shown between the two Forms of Service that produce Wealth.

It is necessary, however, that we should clearly realise there are two distinct forms of service that now contribute to the production of the total wealth from which we are paid, and to understand the principles which divide the total wealth between those who render those two forms of service. If wage were merely the exchange of one man's labour for the labour of another the problem would be simple; we should only have to deal with one form of service. For example, let us imagine a very primitive community of

individuals, some of whom devoted their time to fishing, others to catching animals, or to collecting wild fruits, etc. By specialising in their various occupations they became more adept, therefore more successful, and by freely exchanging the product of their labour they were all better off than they would have been if each had independently endeavoured to provide everything for himself. We note that in this case all the product is the product of personal service. Suppose, however, some of them, after they have provided sufficient to sustain life, devoted some of their spare time to the contriving and making of some tools or instruments whereby they, or others, can catch more fish or animals or birds, or collect more fruit, than they could by their unaided efforts ; and suppose the owners of such tools and instruments let them out to their fellows, on the understanding that they should be paid for the use of them with a part of the additional catch ; we then note a different form of service, a form of service we may call impersonal. What the users of the tool pay for is not direct personal service, but for the impersonal service provided by the tool or instrument.

(23) Definition of Personal and Impersonal Service.

By *personal service*, then, we mean the actual physical and mental service of all classes, including the service of superintendence and of organising ability. By *impersonal service* we mean the service which is rendered by the use of capital in all its many forms. Capital is that part of wealth—the product of service—that has not been consumed but conserved and crystallised in such a form as to assist future production.*

(24) The Proportion Paid at Present for these Two Forms of Service.

These two forms of service, personal and impersonal, produce the total income of the United Kingdom, which has been estimated by the leading authorities to be about

* In whatever way the individual invests any part of his wage so as to promote future production he has added to the sum total of capital, whether he does so by investing in labour-saving machinery or by placing his savings in a bank, which enables others to utilise them to assist production.

£2,200,000,000. In order to realise the importance of understanding the principles that govern the distribution of this sum, it would be a good thing if we could have some idea as to what proportion is at present being paid for each of these two forms of service. This knowledge would also be useful in so far as it would enable us to see if there is any considerable surplus that is being paid for impersonal service that could be transferred and paid for personal service.*

(25) Only Approximate Division can be Shown.

Unfortunately, there is no means of arriving at any precise figures that would show us what is at present being paid for personal service and how much is being paid for impersonal service. This is mainly to be accounted for by the fact that such a vast number of individuals draw a part of their income for rendering both forms of service. However, there has been much time given by eminent men to the preparation of figures to show the total and dissection of the national income, and the results of many of their calculations and deductions are to be found in the Fabian Tract No. 5, "Facts for Socialists." From the figures found in this little booklet we have prepared a round and ready estimate, which estimate we are about to give below.

Before giving this rough estimate, which shows the main division and subdivision of the total income of the United Kingdom, we should like to make quite clear: (1) That the figures are only to be considered approximate; (2) That we have somewhat varied the dissection of certain incomes, especially with regard to the income received by the landlords and the employers; the reason for this will be explained in due course; (3) That we have used round figures throughout for the sake of clearness and because they are more easy for the memory to retain. For example: the booklet gives £2,200,000,000 as being the total income of the nation, but as this sum includes about £175,000,000 as the income received from foreign countries, we have taken £2,000,000,000 as being the income derived from

* When we speak of "surplus" we mean any fund that can be diverted without jeopardising the future production. It would be of no ultimate benefit to the workers if by transferring a small part of the present total production we considerably diminished the future productive power; this would only mean killing the goose that lays the golden eggs.

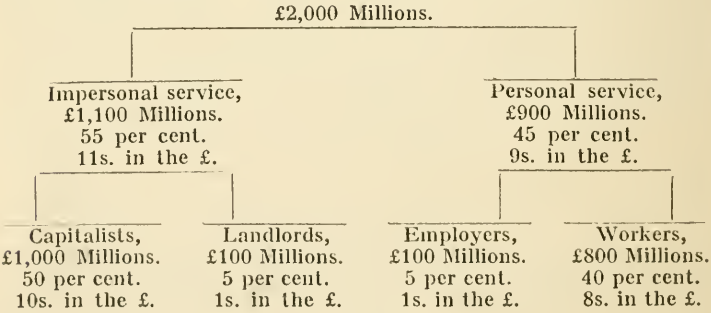
both forms of service performed in the United Kingdom. The booklet gives the income of the workers as "at most some £830,000,000"; we have given this sum as £800,000,000.

(26) The Estimate.

This estimate of £830,000,000 as the workers' total income is considered by many authorities as being much under the actual income the workers receive. If among the workers are included the small employers, whose income is due almost entirely to their own exertions, and the salaried persons in industry, the total estimate would be about £1,200,000,000. However, as our purpose is to dissect the amount that is paid for the two great forms of service, and as practically all the higher paid workers, small employers and salaried persons, enjoy an income that is derived from both forms of service, we believe we are justified in taking the figure given in the Fabian tract (as approximately correct) as the reward received by the workers for personal service only. Further, we believe that this amount of £830,000,000 is even large enough to include the personal service rendered by the professional classes.*

Table 1.

The division of the total production of personal and impersonal service performed in the United Kingdom.



* It will be noticed that throughout this work we have confined ourselves to pre-war estimates of the national income. The reason is that during and since the war the great and continuous changes in values render impossible any steady base of calculation. However, since these figures are used merely to illustrate the points of our argument, it is practically unaffected one way or the other.

(27) Reasons for Showing Sub-Division of Total Product.

Perhaps it will be well to explain why we have not only dissected the total product of the United Kingdom between those who render impersonal service and personal service but have also subdivided each section. In the first case, we have divided the total sum that, we have assumed, is received by those who render impersonal service between the capitalists and the landlords, because the principles that govern the share the capitalists receive do not operate to the same extent with regard to the landlords' income. In the second case, it is necessary to see what governs the amount that is received by the employers, in order to see what governs the net wage the workers obtain for personal service.

(28) Workers the Gross Producers of Total Wealth: or Workers as the Real Employers.

It is our intention to treat the total production of the nation as the gross production of the workers, and to show: (1) Why they pay so much for the use of capital; (2) Why they pay so much for the use of land; (3) Why they pay so much for the employers' service. After we have considered the principles that govern the price the workers may be said to pay for these three forms of service, we shall consider the effect of price on the total production.

We think that by this method of treatment, together with our examination of the principles that govern the total production, we shall find a way by which the total production can be enormously increased, and whereby the workers can avoid paying away so large a porportion of their total production, and thus leave a very much larger balance to be divided between themselves.

CHAPTER V. WAGE—II.

(29) Income from Capital includes Total Return from Every Form of Capital Investment.

Before we deal with the first item (the proportion of the total production that the workers may be said to pay for the use of capital), we should like to say that the reason why the figure in our dissection is so large for this form of service, is because we have included all the income that is derived from every form of capital investment as part of the price that is paid for the use of capital. For example, the income of the landlords derived from rents is frequently estimated to be about £330,000,000, but this sum includes the total rent derived from all kinds of fixed property, including houses, factories, and other buildings, whereas we have included all income obtained from the capital that has been expended upon the land, whether in the form of buildings, development, or the bringing of the untilled land into a state of cultivation, as a part of the sum that is paid for the use of capital. Only the bare site value of the land has been taken upon which to estimate the landlord's income, and this, we find, has only been estimated to be about £90,000,000. Likewise the employers' profits are usually considered to include the reward ("A") for their personal service ("B") for the service that is rendered by their capital invested in the business. In our estimate we have allocated all that ("B") part of their income as part of the price that is paid for the use of capital. Whether we are right in our assessment, or whether we have under- or over-estimated what the employers receive for their personal service, we must leave the reader to judge when we come to consider the laws that govern the price that the workers pay for the service of superintendence and organising ability.

(30) Incomes from all Skilled Occupations are from Personal and Impersonal Service.

There is another form of service, where the income received for personal and impersonal service is much more

closely connected than the income that is received by the employers for their capital and their personal service: that is, the income that is derived from professional service.

When we pay a doctor for his professional service, we pay not only for (what we might term Part "A") his personal attention, but also for (what we might term Part "B") the service that is rendered by the wealth that has been expended, by which he has acquired the necessary qualification. If the qualification could be obtained for a considerably lower expenditure, or if the rate of interest on capital was much lower, we should not have to pay so much for our medical attention. If we are right in thus dissecting the income of the employers and the income of the professional class, reckoning their income as being derived from personal and impersonal service, it seems that we should also dissect the income of the workers, and in those cases where the workers have acquired a degree of skill, by the expenditure of wealth, whereby they have become of greater productive capacity, we should assume that their income is also derived from both forms of service, personal and impersonal.

(31) Half the Total Income Paid for Use of Capital.

The first fact that strikes us in examining the above table is the very large part of the total production that the workers pay for the use of capital,* in comparison with the total net wage the workers receive. We see that, from every pound's worth of commodities produced by labour, with the assistance of the other factors, 10s. worth is paid for the use of capital, and only 8s. worth is received by the workers. It seems almost incredible, yet, if we take the figures of the total national production and distribution given by the best authorities, we find it ranges round £2,000,000,000, while the sum the workers receive is usually assessed at about £800,000,000: this we can see is only 8s. in the pound.† In connection with this fact we should remember that, as labour is an essential element in all the wealth produced that

* If to some it may at first appear that we have over-assessed the total price paid for the use of capital in all its many forms, we think their view will be modified when they have considered the whole of our argument. In any case, we do not think that the soundness of the theory will be vitally affected by any variation of view on this point.

† *See* par. (26).

has a market value, it may be said that the total production is the *gross* product of labour.*

(32) Two Reasons Why so Much is Paid for the Use of Capital.

We now want to understand thoroughly why the capitalists receive so much for the use of their capital, as seen by the above table. There are two main reasons, if the first may be truly called a reason when we have considered the second. In considering the first, we want to rivet our attention solely on the interest of the workers, and see what capital does for them.

(33) What Capital Does for the Workers.

Capital enables the workers to produce far more than they could possibly obtain without its assistance. When they have paid one-half of the gross product of their labour for the use of capital, the workers are far better off than they would be, apart from its assistance. When we are considering this point we want to forget, for the moment, that capital can do nothing without the assistance of labour, and, therefore, has no absolute claim to such a large proportion of the total production.

(34) Workers without Capital.

To realise the assistance capital renders to the workers, we should try to realise what our life would be like if all the product of the service of the past, that has been conserved and utilised to facilitate future production, were destroyed. We will assume that, at the same time, all land monopolies and restrictions, together with the game laws, were abolished, so that men could freely gather all the wild fruits they could find, delve and dig with their hands for any roots that would go to sustain life, catch any fish and wild animals that came within their reach, pick up any material that would provide heat, and select the best spots that would shield them from storms. We all understand that, under such conditions,

* We must apologise for our delinquency in treating the total product of the nation as the gross product of labour. This, we admit, is not correct; there is a small part of the national income with which the workers are wholly unconcerned. Our only reason for not being more precise is our endeavour to keep the subject as simple as possible; we think this is more important than that of splitting hairs when exactitude is not essential.

the vast majority would quickly perish, and that the few who remained would only exist in the greatest poverty and distress. This extreme picture of existence without any capital enables us to appreciate what capital has done to make life not only endurable, but enjoyable for the vast majority. (The reason why it does not make life enjoyable to the whole community, so far as the provision of material wealth is concerned, we shall find does not rest with the limitations of capital, but from some other cause or causes.) The short review of our recent economic history showed us that, during the last twenty years of last century, the worker's wage, as measured by the price of food and drink, rose to more than one-half as much again. This was not obtained by heavier labour, nor by longer hours of toil, but by the additional assistance that capital rendered.

We can thus see that *one* of the reasons why the workers pay so much for the use of capital is because capital so greatly increases the total productive power of the labourers.

(35) The Second and Chief Reason Why the Workers Pay so Much for the Use of Capital.

There is, however, a far more potent reason for the abnormal proportion of income paid to the capitalists, although it is not so readily seen as the one we have just considered. The first is true so far as it goes, but it may be very misleading, unless the other reason is also understood.

(36) Because Capital Renders far less Assistance than is Possible.

If it is true to say that the workers pay so much for the use of capital because capital renders so much assistance to promote production, we think we shall see that it would be equally or more true to say that, if capital rendered all the assistance which it is capable of rendering, the workers would enjoy the use of capital practically free of all charge. If this is so, the chief reason why the workers pay so much for the use of capital is not because capital renders so much assistance, but because capital does not render as much assistance as it might do. For the moment, taking this for granted, it follows that, when a certain point is passed, the more assistance capital renders, the smaller the proportion of the total production will the workers have to pay for the use of capital.

(37) Illustration of the Effect of Increased Quantity upon Exchange Value.

We think the following illustration and explanation will enable us to see that the two reasons are not so contradictory as at first they may appear to be, as well as confirming our second or real reason why the workers pay so much for the use of capital.

A few years ago a new species of potato named the "Eldorado" was introduced and brought out by a Mr. Kime. £500 was paid for four tubers of 5 lb. weight; the next season 1,000 guineas was paid for 14 lb. Later, one man gave £100 for a ton and sold them all again except one cwt. These he planted, after propagating under glass, and as a result raised ten tons from the one cwt. of seed; these he sold for £10 per ton. However, so great was the production, that later on in the same season he could buy other "Eldorado" potatoes at 60s. per ton: only the price they would fetch as articles of consumption.

We can see immediately that the potatoes had two distinct qualities. They had the quality "A" for providing a store of food upon which the owners could exist or exchange for other commodities; they also had the quality "B," a compound productive capacity. It is the variation in the exchange value of the latter that took place as the quantity of potatoes was increased, that we want to consider.

At first, when the quantity was very limited, they were sold at the rate of £100 for 1 lb. weight; when the quantity was sufficiently increased, the price fell to one-third of a penny per lb. This fall in their exchange value was not caused by their compound productive capacity becoming less, but because their total productive capacity had so increased as to provide all that was required. Consequently, their productive factor, which hitherto had been such a source of gain to the owners, had ceased to confer any special benefit that was not shared by the whole community. Therefore, while it may have been quite true to say that the high price the owners at first received for these potatoes was received on account of their productive capacity, yet we can see that, when their total productive capacity had increased, the owners received less and less until it became as it were a mere by-product of no commercial value.

(38) Two Distinct Qualities of Capital.

Capital, like the potatoes, has the same two distinct qualities. It has the quality "A" for providing a store of wealth upon which the owners can subsist, and which they can consume at their good pleasure;* it has also the quality "B," a compound productive capacity. We will first briefly consider quality "A."

Mr. Layton, in his work "Capital and Labour," states:—"There are plenty of people who are quite willing to save, regardless of the rate of interest, in order to provide against old age, sickness, accident, or any other risk of life." We think he might also have included "for the material welfare of their offspring." We can thus see, as in the case of the potatoes, which were still produced when they had lost their productive exchange value, capital would be conserved, even if it lost the greater part or all of its power to insure an income from its productive capacity.

(39) Possibility of Vast Increase of Capital with Consequent Increased Assistance to the Worker.

Given favourable conditions, with our present productive facilities, wealth can be produced in very large quantities at a very rapid rate. Granted that in the future an amount of wealth, corresponding to the total production, is conserved—as has been conserved in the past—in the form of capital, and that a good relationship exists between the various classes, there is good reason to believe that the majority would prefer to invest their savings in our home market. This great addition of fresh savings seeking investment would bring down the rate of interest to a very low level, so that capital would be more and more utilised in assisting the workers, and the workers, at the same time, would pay a smaller and smaller proportion of the product of their labour for the use of capital.

An adequate appreciation of the above point, and what it means in the distribution of such a large proportion of our

* In those cases where capital is invested in the acquisition of professional qualification or skilled ability, it is assumed that a proportion of the income that is derived from the capital thus expended is allocated to make good the cost of the investment. In the same way a leaseholder sets aside a reserve fund, a sum sufficient to replace at the completion of the lease the original amount invested.

total production, is of such vital importance as to justify our giving several examples showing what we believe would be the result of a greatly increased total production and a better understanding between the classes.

(40) Falling Interest and Rise in Wage Checked by Boer and other Recent Wars.

We will suppose that the last Boer War and the other wars that followed had been avoided, or that, during the present century, we had made more use of the facilities of production and had saved the same proportion of our total production, and had thus secured more capital available for industrial purposes. This additional capital on the market would have continued to lower the rate of interest, so that, instead of the yield from current investments in consols increasing from £2 9s. in 1898 to £3 8s. in 1913,*

* Although we have only quoted the interest yield from investments in consols to show the fluctuation in the price paid for the use of capital, we do not wish it to be understood we hold the view that the rate of interest is the same in Government securities and in all other classes of investments. We believe, rather, that the income received by the capitalist for his impersonal service is mainly governed by the degree of competitive pressure to which he is exposed when investing his savings, much in the same way as the income received by the worker is mainly governed, not by the intrinsic worth of his personal service, but by the degree of competitive pressure to which he is exposed when selling his service. For example, the market rate of interest obtained in commercial undertakings (after all risk, etc., has been eliminated), although to some extent regulated by the rate of interest to be obtained from trustee stock, must in the very nature of things be higher than the rate of interest obtained in the latter. The commercial man in the last resort, or with any spare capital he may have, can invest in gilt-edge securities; the trustee cannot invest in the ordinary field of commercial enterprise. In those fields of investment where the personal factor is not connected with the impersonal factor, such as in the case of trustee stocks, the rate of interest is seen to be relatively very low. In those fields where the impersonal factor is very closely connected with the personal factor, the income derived from the wealth invested is seen to be relatively very high. There are some exceptions to the general rule—that is, as the personal factor becomes more closely connected with the impersonal factor the rate of interest will be higher—especially in the case of some of the professions where the incentive and reward is other than material. The highest return to be obtained from invested wealth is undoubtedly in those fields of investment where a sum is invested upon learning a skilled trade, by which means the worker is frequently made twice or thrice the productive value he would be without the investment and is able to obtain a corresponding income

the rate in all probability would have continued to fall, as it had been falling during the previous period when it fell from £3 1s. 6d. in 1879 to £2 9s. in 1898. Had the rate of interest continued to fall from £2 9s. in the latter year to 1913, it might well have fallen to £2 2s. or under. In that event there appears to be good reason to suppose that the rise in the wage of the workers would have continued at about the same rate as it had from 1879 to 1898 (when it had risen to more than one-half as much again, as measured by the price of food and drink), in place of the set-back in the workers' wage that actually occurred.

(41, 42 & 43) The Effect of Increased Total Production on Distribution and the Workers' Share.

When we come to consider what it is that governs our total production, I think we shall find that, without any excessive hours of toil, or more strenuous labour, we could have utilised our productive powers (that we have now proved ourselves to possess) to such an extent that, during the present century, we could have brought our total production, if not to twice our present production, to at least one-half as much again. In that event we should have had £3,000,000,000 to distribute between those who render different classes of service. Under these conditions, and considering the lower rate of interest that would have prevailed, we believe the distribution would have taken place something on the lines below :—

Table No. 2.

Total Production, £3,000 Millions.*

Impersonal service, £1,200 Millions. 40 per cent 8s. in the £.		Personal service, £1,800 Millions. 60 per cent. 12s. in the £.	
Capitalists, £1,050 Millions. 35 per cent. 7s. in the £.	Landlords, £150 Millions. 5 per cent. 1s. in the £.	Employers, £150 Millions. 5 per cent. 1s. in the £.	Workers, £1,650 Millions. 55 per cent. 11s in the £.

* The arguments in support of this assumption as to the magnitude of the possible total production and the distribution (whereby the wage of the workers is doubled) will be considered in their due order. The reason for allotting 5 per cent. to the landlords and the employers

(42) If, however, we had increased our total production to £4,000,000,000, and had saved the same proportion of our total income, and had encouraged a condition of peace and goodwill between the employees and the employers, this would have still further lowered the rate of interest, and the division of the total production would probably have been as below :—

TABLE No 3.

Total Production, £4,000 Millions.

Impersonal service, £1,000 Millions. 25 per cent. 5s. in the £.		Personal service, £3,000 Millions. 75 per cent. 15s. in the £.	
Capitalists, £900 Millions. 22½ per cent. 4s. 6d. in the £.	Landlords, £100 Millions. 2½ per cent. 6d. in the £.	Employers, £100 Millions. 2½ per cent. 6d. in the £.	Workers, £2,900 Millions. 72½ per cent. 14s. 6d. in the £.

(43) In order that we may more fully understand and realise the result of an increased total production on the price the workers may be said to pay for the use of capital, and also see something of the line of argument we are about to follow, let us imagine ourselves in Mars, and that we found the conditions there very similar to those which prevail here. There were capitalists, landlords, employers and workers, and the same competitive laws reigned supreme. A very great war, from which they had just emerged, had destroyed a large amount of wealth and capital, and there was a general fear that, when the first great trade boom was over, a period of severe depression would follow, and wages would fall to a very low level. The destruction of so large an amount of wealth had increased the interest rate, and this seemed to point to a certainty of the capitalists receiving a larger proportion of the total income at the expense of the workers.

Hitherto, many had been relying on collective bargaining for securing a larger proportion of the total income, but

is for the convenience of the round figure; we believe that, when we come to consider the laws that govern their respective share of the total production, 3¼ per cent. will be found nearer the mark; the balance being added to the wage fund.

they found that, while they were able by this means to increase the monetary wage of some of the workers, yet they were powerless to prevent the employers from increasing the price of the product of their employees' labour. The inevitable result of this was to lessen the demand for goods, thus causing unemployment, and ultimately a smaller total wage fund. It is true that some workers did obtain a certain temporary advantage, but it was obtained ultimately at the cost of their poorer fellow workers. Some of them, however, realised that, although the capitalists took such a large proportion of the total production, yet the position of the workers, as compared with past years, was gradually improving, and they had a dim perception that this gradual improvement was caused by the greater service rendered by capital. They observed that the workers did not have to work so hard, nor for such long hours, and yet the vast majority were much better paid; the great pity was that the improvement was so painfully slow. How could the rate of improvement be accelerated? They saw that labour-saving machinery ought greatly to benefit the workers, yet they knew that, in the past, the fear of displacement of labour and consequent unemployment, followed by fiercer competition between the workers, with a resultant lower wage, had prevented anything approaching the maximum output being obtained, and had retarded the introduction of new labour-saving devices. At the same time they were anxious to make the utmost use of labour-saving machinery, as they did not want to work harder or longer than necessary, while they were desirous of obtaining the best possible wage for themselves and for the whole labouring community, so that all might have a fair share of the good things of life, and time and leisure to enjoy them. At last it dawned upon them that, in order to obtain what they wanted—a higher wage all round—they must make more use of capital. Capital had already been of some help; it must be made to serve them more freely.

It was noticed that the destruction of wealth and capital had increased the price paid for the use of capital, and they realised that this was the natural result of the destruction of capital. They therefore reasoned, that, if the amount of production could be increased, prices would be reduced accordingly, and more capital could be conserved, and it would follow that it would be at their disposal at a lower rate. This would mean that the capitalists would

receive a smaller proportion of the total production, leaving a larger proportion of the increased production to be shared between the workers.

To make a long story short, a vast majority of the workers made what was then considered to be a very rash experiment—an experiment which seemed like playing into the hands of the capitalists and forgoing all the supposed benefits they had won. They decided to make the utmost they could of any labour-saving machinery that existed, or that might be introduced, and not to put the slightest restriction on what any worker might do, regardless of the sex of the worker, so long as the work was suitable. In pursuance of this policy, of increasing the total production to the utmost of their ability without arduous or excessive hours of toil, they agreed to sell their service for the highest wage they could readily obtain.*

They soon found that by this means the demand for the product of their labour was equal to the supply, for the demand for goods increased enormously as soon as ever the price made them accessible to the vast mass of the people, and any attempt on the employers' part to obtain exorbitant prices was defeated by the competitive law. The constant and increasing demand for the cheapened products insured a continuous demand for labour at a fair and increasing wage. Of course, when any employer was not paying so good a wage as was usually being paid for the same class of work, the workers soon left the service of such an employer. It was found that, when all the workers were thus willing freely to exchange their service, there was no lack of employment; the previous conditions were entirely reversed and, instead of the workers competing for, employment, the employers were competing for labour. The number of workers being practically limited, and the demand of the employers of labour being now practically unlimited, whenever any employer attempted to take undue advantage of his workers he was quickly squeezed out of the employers' arena by the mere fact of not being able to obtain labour.

* It was somehow realised that things are not the same to-day as they were one hundred years ago; that a great change had taken place in the means of locomotion, transport, and communication, and a great improvement in the education of the people. They saw that this change had removed many of the old obstacles to the mobility of both capital and labour, making them more freely competitive, therefore they thought that what might have been to the advantage of the workers in a bygone age was not necessarily to their advantage to-day.

The policy of attempting to increase the total production was so successful that a great stream of fresh savings was poured upon the market, waiting to be crystallised into some form of capital; this caused the rate of interest to fall lower and lower, until the time came when the users of capital could have the use of it practically free of charge, so long as they left the principal intact. Under such conditions, capital rendered more and more assistance to promote production, yet the capitalists received a smaller and smaller proportion of the total income, until capital was rendering the greatest assistance to the community of which it was capable, the disastrous result of the great war was nullified, while the share of the total production paid for impersonal service fell to the minimum, and the share received for personal service rose to the maximum.

The fact that we require fully to realise and remember from the above consideration, viz., why the workers pay so much for the use of capital, is that the proportion of the total production received by the capitalist is not governed by the assistance that capital renders to the workers in promoting production, but rather by the relative degree of competitive pressure existing between the capitalists on the one hand and the workers on the other hand.* We have just seen that to increase the total production and the quantity of capital is to increase the competitive pressure upon the capitalists. Further on, we think we shall be able to show that the simple fact of the workers being more willing to sell their service would be to increase the demand for the product of the service of others, and thus to increase employment, thereby lessening the degree of competitive pressure upon the workers.

* What do we mean by the relative degree of competitive pressure? Supposing you took a large quantity of sound potatoes to market and many other sellers also brought large quantities. Supposing, too, that the number of buyers was very limited and only a small quantity of potatoes was required. The result would be that you would only obtain a low price for your potatoes. But supposing that the position of the market was reversed and only a few sellers appeared with small quantities of potatoes, while there were many buyers requiring large quantities, a very much higher price would be obtainable. In the first case the degree of competitive pressure upon the sellers would be relatively greater than in the second case, and on account of this varying degree of competitive pressure upon the sellers, and not because of any difference in the quality of the potatoes, a lower price would be paid in the first case than in the second.

411889

CHAPTER VI. WAGE—III.

(44) Why the Workers Pay so Much for the Use of Land.

Besides the large proportion of the total production the workers may be said to pay for the use of capital, they pay a further share for impersonal service, in the form of rent and royalties to the landlords, for the use of the bare value of the land and all it contains. This does not include any part (of what is frequently considered to be the landlords' income) that is derived from capital expenditure: we have included that in the part that is paid for the use of capital.

We do not propose to condemn or justify the policy that has given away what some consider the birthright of the people to the land upon which they were born. Suffice it to say that, at the present time, for good or bad, we find the greater part of the land assigned to various owners, who have the right either to use it themselves or let the use of it to others.*

Our main purpose is to see what are the principles that govern the price that the landlords can obtain for the use of the land. We especially want to see if the landlords would be able in any way to take an undue advantage of the workers, were they willing to sell their service freely for the highest price they could readily obtain, and did all they could to increase the total production.

(45) The Price of Land Determined by the Number of People Living upon it.

We have just stated that it is not our intention to criticise the policy, or want of policy, that has deprived the people

* Before we condemn the policy of those who were responsible for assigning the ownership of land to certain individuals, we should remember that, even to-day, with all the light of past and present events available, in those countries where vast tracts of land are awaiting development, the Governments make free grants of land in perpetuity to all those who desire and are willing to utilise it. In less than a thousand years much of the land will be of great value, and this value will be appropriated by those who first develop it, and by their successors—less any amount the future Governments may think well to appropriate by taxing the recipients

of the value of the land. It is worth while, however, in passing, to note the grounds on which some base their claim that the value of the land should belong to the community and not to private owners. We shall be right in stating that they found their claim on the principle that they who create or make a thing should own that thing, by virtue of having created or made it. They contend that the land would not have the slightest value were there no people living upon it, and, as it is the people living upon or within reach of the land that gives it the value it has, that value should belong to those who made it. We are not going to discuss this claim, nor what can be said in favour of private ownership. The only point that is now of interest is the fact that it is the number of people living upon, or within reach of, the land that determines the price that is obtained for the use of the land. The greater the number of people the higher the rent, the smaller the number of people the lower the rent—other factors being equal.

If only a few people lived upon an island which had no communication with any other land, and if there was sufficient of the best land and to spare of the same fertility within easy reach, there would be no difference in worth of the land under cultivation. But supposing, as time went on, the population of the island grew to such an extent that some had to cultivate land of a poorer quality, those who cultivated the better land would have a surplus over what was obtained by the same amount of labour that was expended upon the poorer land. This surplus is understood as economic rent.

(46) Prices are Fixed by Cost of Working the Poorest Soils: all Extra Gain is "Economic Rent."

The economic rent of agricultural land, then, is considered to be the surplus product yielded by various qualities of land under cultivation (having regard to situation or proximity to market, as well as to intrinsic quality). The price of the product of the land is fixed by the cost of production under the most disadvantageous conditions necessary to obtain the total production required. The price for the same quality of product is the same, whether it is produced from prolific soil or otherwise, thus leaving a margin of gain to the cultivator of the prolific soil. This margin of gain is

economic rent, whether it is received by the cultivator or paid to a landlord.

(47) Economic Rents Modified by (*a*) Imports, (*b*) Increased Production.

We can thus see that, as the population of the island grew larger and larger, the lower and lower would be the qualities of soil brought under cultivation (and therefore the greater the variation in the fertility of the land under cultivation), and the higher would be the rents of the better grades of land. Of course, as soon as they got into touch with other lands, and could import some of their foodstuffs, this would modify the tendency to higher rents, or if by some means they were able to increase greatly the total product of their lands, this would avoid the necessity of farming the poorer lands, and thus keep the rents in check.

While the above strictly refers only to rent received by the landlords for the use of agricultural land (which is only about 20 per cent. of the total amount paid for economic rent), yet the same principles apply in a very large measure to the other sources of income that fall under the same head. For example, about one-third of one per cent. of the total national income is paid to the landlords for mining royalties. As this proportion of the total sum distributed is so small, and, as it would not be greatly affected by the policy we are suggesting, we will pass on to the much larger payment the landlords receive, viz., for site values.

(48) The Growth of Population Governs the Rent of Site Values.

Sir Chiozza Money has estimated that £16,400,000 is paid for the bare site value for houses, etc., in London, and £43,200,000 more for the rest of the United Kingdom. There is also a further sum of £5,500,000 for the bare land value of railways, docks, etc., making a total sum of about £65,000,000.*

As with the case of agricultural land, the great determining factor that governs this charge is the growth of the population. The means of transport and locomotion

* "*Daily Mail* Year Book," 1913, p. 22.

also have an influence. With an increase of the population the charge goes up, other factors being equal, while, with a cheaper and more rapid means of transport and locomotion, the price paid for the bare site value of land tends to decline. No amount of collective bargaining between the workers and their employers can have any influence in reducing this charge, nor would the fact of the workers being more willing to sell their service for the highest price they can readily obtain tend to increase this charge. If anything, the fact of the increased total production (which would result from such a policy, and which would lessen the price paid for the use of capital) would considerably lessen the cost of transit, and thus tend to lessen the rent of site values in our large centres of population.

We have seen why the workers pay so much for the use of land through the three main channels of economic rent, viz., agricultural land, royalties, and site values.

Science a Factor in Reducing Economic Rents.

An acceleration in the yield of all grades of land already tilled, by a more scientific method of farming and a greater use of fertilizers, together with the bringing of more land into profitable cultivation (by capital expenditure made possible by a lower interest rate), would mean a general reduction in the price of foodstuffs, and a possible reduction in the economic rent charge on agricultural land.

(49) A Fresh Flow of Capital would Reduce Rents of Site Value.

As we have seen, the reduction in the rents of site values would tend to follow naturally from a reduction in the price paid for the use of capital, with a consequent lessening of the cost of transport. Fresh sites would be eligible, and fresh opportunities for building, and, as the competition between the landlords increased, the site value would tend to diminish.

(50) Summary of Foregoing Remarks.

A consideration of the foregoing remarks reveals the fact that the paucity of production (together with the

imperfect degree of confidence and security) is responsible for the high price that is paid for the use of capital, and also tends to increase the general economic rent charge.

The facts that we want to grasp and to remember, with regard to what the workers may be said to pay for the use of land, are: (*a*) That the sum is derived through the growth of the population, and the varying qualities of the land, together with its situation; (*b*) That the sum is confined within certain limits, which are relatively small when compared with the total sum the workers pay for the use of capital; (*c*) That the sum does not appear to be modifiable, to any great extent, by any attitude of the workers, *i.e.*, neither lessened by collective bargaining nor increased by the workers being more willing to sell their service for the highest price they can readily obtain.*

* It is even difficult for Parliament to divert any part of the sum that the landlords receive for the use of land, and transfer it into the pockets of the workers, without the risk of upsetting the feeling of confidence and security in the country; if the latter takes place it may well cost the workers more than the benefit they receive. We must remember that about 90 per cent. of the total sum that is paid for impersonal service is paid for the use of capital; therefore, however justifiable it may be to endeavour to deprive the landlords of that part of their income that is acquired, not by any service they may be said to render, but by the growth of the population, great care must be taken not to upset the feeling of confidence and security in the country, and thereby increase the price paid for the use of capital, for, if this happened, the result would probably be that ten times the sum that is obtained from the landlords would be paid into the pockets of the capitalists, thus leaving the workers poorer by nine times the sum derived from the landlords.

CHAPTER VII. WAGE—IV.

(51) Why the Workers Pay so Much for their Employers' Service.

It is assumed that the employers receive for personal service an annual sum of £100,000,000. Before considering the principles that govern the *total* sum that the workers may be said to pay for their employers' personal service, it may be well to point out that the sum, which we have placed approximately at £100,000,000 (see Table I, para. (26)) is quite arbitrary, and that we have no official figures for its support. A further examination, however, will show that the main line of our argument is not affected by the correctness or incorrectness of such an assumption, while, at the same time, we believe the sum will be accepted by most as a reasonable estimate. If we had given what we thought to be a more precise estimate of the employers' income for personal service we should have stated a considerably lower figure.*

(52) Any Increase in Wages by Collective Bargaining is ultimately Borne by the Community.

We have shown in the preceding section that the income of the capitalists is placed in a position of extreme vulnerability to the right kind of attack on the part of the workers. In the succeeding paragraphs we shall see that the income received by the employers for organising ability and superintendence is controlled by principles, which render it almost, if not quite, impregnable to attack by the workers, and that, if any increase in the price of wage is secured (by collective bargaining), there is

* We presume that the correct way of arriving at the total net profit received by the employers would be to assume that all the employers made a first charge upon their gross profits for the use of their capital in the same way as a charge is made upon such profits for rent, rates, wages, etc., then all the net monetary gains of the successful employers, less all the monetary losses sustained by the unsuccessful employers, would be the sum the employers receive for their personal service as organisers for the community. This net profit would thus include any sum that the employers would have received as wage earners if, instead of employing labour, they were employed at a salary to superintend and to organise labour.

practically nothing to hinder that higher price being passed on to the consumer.* When we consider the effect of price on employment, production and wage, we shall see something of the disastrous result of higher prices thus obtained on the future prosperity of the workers.

What is it that keeps down the price which the employers charge the consumers for the product of their employees' service, and thus keeps down the profit they receive? In other words, what is the principle governing the employers' profits? It may be illustrated by the position of the miller, as, although the position of many of the employers is more complex, ultimately the same principle governs the profit of both. It can be easily seen that it is not the price the millers pay for their wheat that governs their percentage of profit, but the principle of competition between them. We know, only too well, what would happen if any attempt were made to reduce the profits received by the miller to a minimum by increasing the price of wheat. We should simply have to pay more for our flour and the profits would remain untouched. But supposing, instead of increasing the price of their wheat, we could engender a keener degree of competitive pressure between them, it would not matter how much the price of wheat was reduced; the increased competitive pressure would simply mean cheaper flour, the profits being kept on a lower base.

The same principle operates in the case of the employers of labour. The total profit they receive is governed, not by the price paid for raw material or for labour, for any advance in these is followed automatically by a rise in the price of the product, but by the degree of competition that is engendered between them. The keener the competition, the lower the profits.

(53) Competition between Employers not even mainly, much less solely, Engendered by Pressure of Need as in the Case of the Workers.

What is it that engenders this competition between the employers: with its effect upon the price they can charge and the profits they receive?

* We are only considering commerical employment and wage—not domestic.

Walker, in his "Wages Question," states: "It must be remembered that the employment of labour is an occupation as truly as is manual labour itself; and that the body of employers must continue to employ labour or find some other ways and means to live" (page 260). Now, it is certainly true of the manual workers that they must find some means of earning a livelihood, and this fact is one of the strongest incentives to attract them into the labour market, where the competition between them keeps down the price of the wage they receive. But it is not true, at least, in many cases, of those who are large employers of labour that they "must continue to employ labour or find some other ways and means to live." In most cases large employers of labour are men of means who, if they choose to retire from the commercial arena, could obtain sufficient income from their capital, without entrenching on their principal, or employing labour for commercial purposes. In fact, the more the conditions that govern the competitive position of the employers are compared with those that govern the competitive position of the workers, the greater the difference appears to be. The vast majority of the workers must find employment, by hook or by crook, to obtain the wherewithal to live, while every employer of labour has the choice of entering into the arena either of the employers or the employed. Further, many of the employing class have the opportunity of entering some of the professions, or, as we have just stated, of living upon the income derived from their capital.

It would not be true, therefore, in any large degree, to attribute the competition between the employing class to any real necessity on their part for selling their service as organisers and employers in order to live.

(54) Two Main Attractions held out to Employers: (*a*) Material; (*b*) Immaterial and Moral.

The attractions held out to employers, to enter the commercial arena and compete with one another, appear to resolve themselves into two main incentives as follows:—

(*a*) The *hope* of receiving material profit.

(*b*) The immaterial and moral inducement to which Walker alludes in the paragraph immediately

preceding the one just quoted, as follows: "The zest of intellectual activity, the joys of creative energy, the honour of directing affairs, and the social distinction of mastership."

(*a*) *The Material Incentive.*

(55) The Hope of Material Profit Rests on very Uncertain Foundations.

(*a*) The *hope* of receiving material profit. The ground for this hope is very different from that on which the employee usually bases his expectation of a weekly or monthly wage. Such wage is usually forthcoming when due, whether the employer has made any profit or otherwise. The wage may be small, but it is practically certain, whereas the profit of the employer may be large, but more frequently than otherwise (after he has set aside a fair market price for the use of the capital invested in his business) it is small. In fact, it not infrequently happens that, after an employer has set aside the market rate of interest on his capital, his profits are nil, and sometimes the income from his business is not sufficient to pay any interest on his capital, much less leave any margin as the reward for his personal service. The latter case is by no means so exceptional as one would think, especially where large prospective profits entice men into the arena. Here, as a rule, many will make great losses.

(56) Gold Mining Total Losses Greater than Total Profits.

The gold mining industry is, perhaps, an extreme example. We all know that many gold mines pay exceptionally large dividends and, on the surface, it would appear that gold mining, on the whole, must be a very profitable enterprise; it seems almost incredible that all the profits of the gold mining companies would not be sufficient to pay all the losses, yet such is the case. It is estimated that twenty-five shillings is the average cost of production of the gold in every sovereign.

(57) Small Proportion of American Firms with Adequate Profits.

In an address delivered by Mr. Edward N. Hurley, Vice-Chairman of the Federal Trade Commission, before the

Boston Commercial Club and inserted in the "Congressional Record," 1916, vol. 53, part 14, appendix p. 994, the following report appears :—

"The Federal Trade Commission has been in existence one year, and after surveying the field we found from a preliminary investigation that 200,000 corporations out of a total of 260,000 engaged in the manufacturing and mercantile business of the United States were eking out an existence ; 100,000 of them did not earn a penny.* Out of the 60,000 successful corporations doing a business of $100,000 a year, over 30,000 charged off no depreciation whatever. There were over 22,000 business failures in the United States last year ; more than 20,000 of them were small concerns."

What the total profits of the successful corporations amount to we are not informed, but the figure must be colossal. Many of the firms must make millions a year, which make the position of the employers, from a material point of view, appear very attractive.

(58) Successes Prominent and Failures Obscure.

These firms with their enormous profits hold a very prominent place in the public eye. The thousands of firms who are making no profit, and many who are not even earning sufficient to cover working expenses, and to pay any interest on the capital invested in their business, have a short commercial career and soon disappear. In the majority of cases they pass into oblivion without attracting any public interest ; a few of them (about 22,000 a year) pass through bankruptcy, most of them only causing a momentary local interest. Only in exceptional cases is their history long before the public attention.

Racing men would tell us that large odds mean large risks and small odds mean small risks. This seems to be as true of business as it is of backing horses.

In England, with our more conservative mode of business, there are not so many firms employing labour who are making their millions a year ; on the other hand, doubtless, not so many firms employ labour without making any "net income whatever." But, as is the case in the United States, our prosperous firms exist and loom large in the

* We presume—but are by no means sure—that all the 100,000 firms, of whom it is recorded that they "did not earn a penny," not only failed to make any profit, as the reward for the personal service rendered by the employers, but also that their gross profits were insufficient to pay any interest on the capital that the employers had invested in their business, unless the capital was lent to the firm as a mortgage on the property.

public eye, while the firms who make no net profit whatever soon drop out of existence as quietly as possible.

Were the reverse conditions to prevail, and were the unsuccessful firms prominent in the public eye; were all the monetary losses registered and made public, and were there recorded and published all the unrequited toil of brain of those who have striven honestly but with insufficient ability, doubtless many would be deterred from entering the employers' arena. If such were the case the competitive pressure would be considerably lessened, permitting the successful employers to obtain a much higher price for the product of their employees' labour and thus granting the employers a larger share of the total production. Such a state of affairs, however, is not likely to occur. Moreover, it is human nature to *hope* to succeed even where others have failed, and there are always many whose unwarrantable confidence in their own ability is only shaken by the rude shocks of failure. The conspicuous success of the few dazzles the many, inducing them to enter the employers' arena by the chance of a like success. This *hope*, then, of material gain is one great factor in maintaining the pressure of competition, which, in turn, governs the total profits of the employing class and limits them to a relatively small proportion of the total production.

In a letter I received from the late Prof. Smart he stated: "My own view is that there are so many 'real wages' in employing, which do not enter into money, that the community gets the employing function done for it, practically, for almost nothing—at least for 'interest and the glory of it.'"

(*b*) *The Immaterial and Moral Incentives.*

(59) The Hope of Material Gain is not the Only, and frequently not the Main, Incentive to the Employers.

Prof. Smart in the above letter substantiates the teaching of Prof. Walker that material gain is not the only, or the main, inducement to men to become employers. Were that the only incentive, our commercial life would sink to a very sordid level indeed. It is not too much to say that one of the greatest evils that can befall any section of the community is that it should descend to the level of a mere wage-earning or wealth-producing machine. It is the

distinctive glory of man that he does not live by bread alone, and no system of industry is morally sound which induces or compels men to make wages their master instead of work. John Ruskin's edict is quite as applicable to the employers as it is to the workers. Either may become Slaves or Freemen :—

"If your work is first with you, and your fee second, work is your master, and the lord of work, who is God. But if your fee is first with you, fee is your master, and the lord of fee, who is the Devil; and not only the Devil, but the lowest of Devils—the least erected fiend that fell! So there you have it in brief terms: work first—you are God's servants; fee first—you are the Fiend's. And it makes a difference, now and for ever, believe me, whether you serve Him who has inscribed on His vesture and thigh 'King of Kings' and whose service is perfect freedom; or him on whose vesture and thigh the name is written, 'Slave of Slaves,' and whose service is perfect slavery."

(60) Various Incentives to Men to Enter the Employers' Arena.

If we were critically to examine the motives and incentives that govern our individual course of action, we should find them very mixed. Likewise, if we could examine the immaterial motives and incentives that prompt many men to become employers, we should find them very various, doubtless including, to a greater or smaller extent, some or all of the following: (1) "The love of freedom and the desire to control"; (2) "The honour of directing affairs and the social distinction of mastership"; (3) "The zest of intellectual activity and the joys of creative energy"; (4) "The love of service and the desire to promote the welfare of humanity."

(61) Love of Freedom.

The love of freedom is inborn to a greater or smaller extent in every individual, and, whatever may be the actual result in practice, it is usually considered that the position of the employers affords more scope for freedom than the position of wage-earners. Hence some men of only average ability, who have hitherto been wage-earners, but who, by some means, have the opportunity of becoming employers, in their search after freedom leave one kind of control to enter the employers' arena, frequently to find that, although they are nominally their own masters, yet practically they are more controlled and governed than ever before. When the hope of receiving material gain, and the

love of freedom, are the main incentives to men of average ability to change their vocation (from wage earners to employers) their experience, as a rule, is not to be envied.

(62) Joys of Creation.

We prefer to believe that, in the main, worthier motives than the hope of receiving material gain, and the love of freedom, attract the majority of men to take up the responsibilities and risks of an employer's position. There is in many men an innate desire to control, direct and create. This desire finds expression, not only in literature, science and art, but also in industry. The true glory of men lies in self-expression and, although there are various motives, with differing degrees of attractive power, that lead men into those vocations in which they believe they can live their fullest life, yet, in the main, they are anything but sordid. Some men are attracted by one of the sciences, some by one of the arts, but to some men there is music in the hum and roar of the concern they control, and romance in the creation and production of the streams of goods that flow through their factory doors in all directions; to be used by other hands and to help in accelerating production and providing comforts in other realms. Just as many an engine driver has a pride in the engine he controls, which has no relation to the wage he receives for driving it, so many an employer experiences a keen delight and pride in producing, which is out of all proportion to the material gain he receives. This is no ideal representation but sober fact, and, while material profits are aimed at and desired, a great proportion of the pleasure comes from the fact that such profits are an evidence of the success of the employer's organising genius and creative energy. It is, then, in this compound of motives other than material that we find the main source of the attractiveness of the employing arena to many men of real ability.

(63) The Importance of Attracting the Highest Ability into the Employers' Arena.

It is clear, then, that it is the degree of competitive pressure, engendered between the employers, that governs the proportion that they may be said to receive from

the workers as payment for their service as organisers. It is also clear that the proportion is not affected by the price they may pay for their raw material or for labour. Since this is so, it is vastly more important that nothing should be done to lessen the attractions of the employers' arena to men of organising ability, than it is for any section of the workers to obtain a higher price for their service by means of collective bargaining.

(64) Ultimate Benefit to the Workers from the Elimination of Inefficient Employers.

Further, it can be seen that, by making the employers' position more attractive to men of the highest character and of the greatest organising ability, men of a lower type and poorer ability would be forced to relinquish the employers' vocation. The result of such a change would be a great increase in the total productive power of our country, which, in turn, would greatly increase the competitive pressure upon the capitalists ; thus granting to the workers a much larger proportion of the increased total production. It is, therefore, of the utmost importance that the most efficient and up-to-date organisers should be encouraged to play their part in the industrial life.

When we come to consider the conditions that tend to increase the efficiency of the employers as economic organisers and the industrial efficiency of the workers, further proof will be adduced of the truth of the above statements.

(65) A Dissection of the Total Profits would Show that they are mainly Allotted to the Employers according to their Relative Degree of Ability as Economic Organisers.

Were we to make a slight digression from our mode of argument, and consider the division of the total sum the employers receive for their personal service, we believe we should find that, as a rule, the division of the fund between the individual employers is made according to their relative degree of ability as economic organisers, although there would be many exceptions where good or ill fortune has effected such division.

(66) Profits are not a Tax upon the Community nor a Sum Abstracted from the Total Wage Fund.

Also, we should find that the profits made by the well-conducted firms are not in any way a tax upon the community or a sum sweated out of the wage paid to the workers. If we had a full report of the wages paid and the price charged by the 60,000 successful corporations in the United States, we think we should find that, as a rule, they paid a higher rate of wage and charged a lower price (for the same class of product) than the 100,000 firms who "did not earn a penny." The Ford Motor Company for the year ending July 31st, 1916, made a net profit of £11,998,800 and 60 per cent. was paid in dividends. They employed nearly 60,000 men, 36,000 of whom earned £1 a day or more, yet that Company gave the world's best value in motor cars.

(67) Principles that ultimately Govern the Sum the Workers may be said to Pay their Employers.

In our consideration of the principles that govern the sum the workers may be said to pay for their employers' service, we wish it to be understood that we have not attempted to deal with the ripples on the surface, but only to show the ultimate governing factors. We are aware there is a large amount of elasticity in the profit received by the individual employer, and that when a body of workers by collective bargaining enforce a higher rate of wage, they frequently do so at the immediate expense of their respective employers; that is to say, the higher price of wage is not, in all cases, at once passed on to the consumer in the form of higher prices.

(68) Employers' Profits in Trade Union Industries are Probably Higher in Consequence of Possible Loss Caused by Industrial Trouble.

How far the possibility of this loss of profit is previously discounted it is impossible to say, but it is only natural to supppose that, in those trades where trade unionism is the custom, the employers obtain an extra profit as a premium, on account of the possibility of the loss of profit they may temporarily incur by the above cause. For

example, the unrest and uncertainty (with the consequent feared loss of profit) existing in the colliery industry, tend to lessen the attractiveness of this branch of commercial enterprise, both to the capitalists and the employers; therefore, they both require a larger prospective profit than would otherwise attract them if the relationship between the employers and their workers were of a more peaceful nature, and their interest and profit more assured. This lessens the degree of competition that exists between them, and thereby grants to those remaining in this industry—and to those bolder spirits who venture to enter—a larger profit than they otherwise would receive, were it not for the fear of loss of profit that may be caused by industrial trouble.

We have been assured that many mines which are at present being worked are practically worked-out from a miner's point of view, the labour required for getting the coal and delivering it at the head of the pit being too great to afford a fair wage to the miners. If during the past twenty years we had had more settled conditions in the mining industry, a much larger amount of fresh capital would have been invested in opening up fresh mines. The competition these would have engendered would have squeezed out of existence the poorer class of mines. It is these poor mines that keep down the wage of the miners and keep up the price of coal, thus leaving a much larger margin of profit for the owners of the better mines. To penalise the owners of the good mines for the purpose of subsidising the owners of the poorer ones is the greatest disservice that could be rendered to labour. The result would be that the poorer mines would continue an unnatural existence at the price of the progress in productive efficiency of the rest, also it would have the effect of retarding the development of fresh mining enterprises under the most economic conditions.

CHAPTER VIII. THE DEVELOPMENT OF OUR PRODUCTIVE POWERS.

(69) Progress in the Art of Production.

During the last hundred or one hundred and fifty years, there has been a gradual development of our productive powers, which in its aggregate has revolutionised many of our economic problems. In the days of old the cause of poverty was the great amount of human energy that was required to produce the bare means of existence. Such is not the case to-day. Now, the problem is not so much the lack of productive facilities as the difficulty of finding a way by which they can be fairly utilised. If we were to utilise our productive powers relatively to the same extent as our forefathers utilised their powers of production, there would be no such low wages nor the terrible conditions of poverty that exist to-day.

Sir Chiozza Money, in an article in the *Contemporary Review* on "Poverty of Production," stated :—

"We are no longer the helpless creatures we were a hundred and fifty years ago. Then poverty was a natural poverty, for men had necessarily to earn their bread by the sweat of their brows, and to devote themselves almost entirely to work upon the land, done without the assistance of any but primitive instruments. That is not our case to-day. Agriculture no longer demands the arduous labour of the majority of men in a white civilisation, and the labours of the majority are set free to apply scientific methods to materials to produce the commodities which lift man above the condition of the agricultural hind.

"If from to-day science went no further, and men read no more in Nature's book, we already possess powers enough to produce not merely a good living for all our people, but a plethora of every good and desirable thing. Science has not failed; she has succeeded beyond all imagining. . . . Since man possesses the means to adequate wealth production, poverty has become a crime."*

Prof. W. T. Layton draws attention to the same fact by the following statement :—

"A single concrete instance must suffice to show the immense difference that progress in the arts of production has made to the effectiveness of human labour. An analysis of what may be called

---

* The *Contemporary Review*, February, 1914.

the man-labour-power required to produce thirty bushels of wheat or barley in America by the methods current eighty years ago and by the methods in use at the end of the nineteenth century, shows the following astounding change :—

	Wheat.		Barley.	
	Hrs.	Mins.	Hrs.	Mins.
1829-30	61	5	63	35
1895	3	19	2	43."*

We have by no means reached the zenith of our productive powers. Prior to the war, in spite of the fact that we have made such very poor use (in comparison with what we might have done) of the facilities of production we possessed, the rate of progress appeared to have been accelerated almost year by year. How rapidly and to what extent our productive powers would develop, if we fully utilised the productive facilities we have, it is difficult to say, for like the interest yield from capital, they would doubtless increase on a compound rate. The more there is produced the greater are the possibilities for further increasing the total production. With regard to our means of transport and the means of communication, these have developed as rapidly as our productive powers. Therefore, it is not these that are responsible for preventing us from taking full advantage of our productive powers.

If the above statement on the development of our productive powers represents anything like the facts as they existed before the war (we think all impartial minds will agree that they do) it follows that our main object should be to discover what it is that prevents us from taking full advantage of our productive powers, or what it is that limits our total production. This problem, therefore, we now seek to solve.

The Effect of Price on Production.

(70) Production Controlled by the Effective Demand.

Under normal conditions and under our present system of industrial production†, the amount of goods we can

* "Capital and Labour," Prof. W. T. Layton, p. 20.

† It is true that in addition to the industrial production and exchange of service regulated by the monetary demand, there is also what we may term a domestic production and exchange of service which is not considered here, such as the following: (*a*) the product produced and consumed by the producer; (*b*) a number of purely bartering transactions; (*c*) the great unpaid service such as the wife renders to her husband.

produce is limited, not by our productive resources, but by the effective demand: which demand, to be effective, has to be a monetary demand. Price governs the monetary demand. What we mean by this is that the lower the price the greater is the volume of goods that the same sum of money can purchase and the greater the quantity of goods that can be produced. Contrariwise, the higher the price the smaller the volume of goods that the same sum of money can purchase, and the smaller the quantity of goods that can be produced. We will consider what governs the total quantity of money later on. The first fact that we must bear in mind is that, whatever facilities any manufacturer may have for producing goods, he cannot go on producing goods in excess of the monetary demand. Take, for example, the case of a boot manufacturer. It does not matter what machinery and other facilities he may have for providing boots, or how much suitable labour may be awaiting employment, or how many people may be requiring boots, so long as the price of the goods is too high to permit people to purchase them. There must be an effective demand or the goods cannot be produced.

(71) All Money is Equally Reduced in Purchasing Power by Higher Prices, whether of the Workers, or the Wealthy, and whatever the Nature of the Purchases.

It may at first appear to some that, while this argument is sound with regard to the effective demand created by the workers' income—that is, that they cannot spend more than they receive, consequently, if prices are higher they cannot purchase so much as they can when prices are lower—yet it does not follow with regard to the wealthier classes, who have a surplus income over what is necessary to keep body and soul together. A little reflection, however, would enable them to see that, to the extent that prices are advanced, the wealthy cannot buy so much at the higher prices as they can at a lower price. Also, it will be seen that, although some of the members of the wealthier portion of the community may bank part of their monetary income, and by this means indirectly lend a portion of what we might term their effective demand

for goods to others, it simply means that if "A" lends so much to "B" and if prices are higher "B" cannot buy so much as he otherwise could if prices were lower. Nor does it make any difference whether the goods purchased are at once consumed, or whether they are of the nature of steel rails, railway rolling stock, or any other class of capital investment, the same fact holds good that, if prices are higher, the same sum of money cannot purchase so much at a higher price as it can at a lower price, and that it is the total purchasing power of money that constitutes the total effective demand—which effective demand limits the total production.

(72) The Reason Why High Prices Must Eventually Lessen the Total Production.

The point that we want to make quite clear is that all successful attempts to force prices up have to be ultimately counterbalanced by forces to pull prices down, in order that prices may be maintained at something near the same level, and that in the process of pulling prices down a very great economic loss is involved; which loss has ultimately to be borne by the labouring community.

There is a sound economic reason why, under our present monetary system, higher prices must eventually lessen the effective demand for goods (and consequently for the labour that produces the goods), for it is by this limited demand for goods, under normal conditions, that the balance of price is maintained at something near the same level; which level is ultimately related to the cost of the production of gold. What we mean by the cost of the production of gold is the cost of the commodities we have to give in exchange for the production of a certain weight of gold.

For the moment, let us suppose that there was no limited or restricted demand for goods, and thus no limit to the demand for labour to produce the goods, and that while some people merely desired, others were determined to obtain, by hook or by crook, the very highest price they could receive for their service, or the product of their service. We can easily understand that, under such conditions, the price of service and of goods would keep going

up and up; which would mean that the same sum of money would buy less and less.

(73) The Forces of Hunger and Want inevitably Counterbalance the Forces of Greed and Selfishness in Keeping Down Prices.

We can thus see the economic purpose that is served by the limitation of the monetary demand limiting production as prices are advanced; for it is by this means that the advance is checked and prices are brought down again. It seems to be nothing more or less than the operation of the natural law, which it is impossible to evade, that maintains an equilibrium. If you have a weight attached to a free cord over a pulley and want to keep the weight at a certain level, you must have an equal weight at the other end of the cord to balance it. If the forces of greed and selfishness demand higher prices, and the balance of price is to be maintained, the forces of hunger and want will be increased; so as to compel men to sell their service for a lower price. It seems inevitable that such results must follow, for by what other means, under normal conditions, can prices be kept in check?

(74) This Means of Keeping Down Prices is very Bad for the Poorer Classes, Lessening Efficiency and Reacting Adversely on all the Labouring Community.

The process, and the result of the process, by which the balance of price is thus readjusted to something near the normal, is very disastrous for the workers; especially for the poorer section of the community. It sets in motion a vicious chain of circumstances. First of all, by causing unemployment (through the insufficiency of the monetary demand to purchase the product of all the willing workers) it imposes an excessive degree of competitive pressure upon the workers when selling their service: compelling some of them to accept such a low wage that they cannot obtain the wherewithal to maintain themselves and their families in a good physical state of health. This, in turn, lessens their productive efficiency. (No man can do a good day's work who is insufficiently nourished.) It also lessens their

purchasing capacity, so that they are unable to purchase, *e.g.*, the boots they so much need, and are thus unable to provide employment for the men who make the boots. The semi-employed or unemployed bootmakers, in their turn, are not able to purchase so much of the product of the service of others, and thus the vicious chain of circumstances goes on until it has adversely affected, to a greater or smaller extent, the labour market conditions for the whole of the labouring community. It is these increased adverse market conditions that compel the workers to accept lower wages, which, in turn, counterbalance the higher wage obtained by collective bargaining.

(75) Paucity of Production, as We Have Seen, Forces Up the Hire Price of Capital.

Unfortunately, this is by no means the ultimate end of the loss that is involved by higher prices lessening the opportunity for employment and the production of wealth. We have already seen that it is the too small total production that limits the amount of wealth that is available to be conserved to assist future production; and that it is because of the insufficiency of capital that the workers are compelled to pay so much for its use. The great cause of low wages thus seems to be the paucity of production, which, in turn, is the result of too high prices.

(76) What Governs the Total Monetary Supply.

It is true that the quantity of money must be considered, as well as price, in order that we may arrive at what governs the total sum of the effective monetary supply; which, in turn, determines the total industrial production and wages. Unfortunately, this part of the subject is by no means simple, on account of the varying rate of the rapidity of money being exchanged for goods, and of the large proportion of the monetary transactions being conducted by various means of credit; these facts make the quantity of money of a very elastic character. That is to say, under these conditions, the quantity of money can be almost indefinitely increased or decreased by various factors.

(77) The Monetary Supply Depends more upon the Number of Transactions than upon the Actual Number of Coins Available.

The point we want to grasp is that the effective demand for goods does not depend so much upon the number of coins and paper tokens in existence as it does upon the number of transactions such coins, or their credit representatives, perform. If a coin lies dormant, and in no way facilitates any credit transaction, it can hardly be called money. Anyhow, it does not add to the effective monetary supply, whereas if it performs a hundred transactions it multiplies itself (to all intents and purposes as it affects exchange) to that extent. Before the war it was considered that the total sum of credit transactions was about ten times greater than the total sum of cash transactions. We can thus see that the quantity of money depends more upon the attitude or the disposition of the individuals composing the community, than it does upon the number of coins.

We first want to consider, briefly, a certain attitude or policy which the community could adopt, and, if adopted, to show how the quantity of money would be indefinitely increased without raising the price of commodities. We can understand that it would be of no use to increase the quantity of money if, at the same time, we increased prices to the same extent : it would not enable us to purchase more.

(78) A Policy which would Evade the Restrictive Counterbalancing Forces referred to and would Secure the Maximum of Production and the more Equitable Distribution of Wealth.

Let us suppose for a moment that all were willing to sell their service, or the product of their service, for the highest price they could readily obtain; and that a good understanding existed between the classes, with a consequent feeling of increased confidence. We think it can be seen that, under such conditions as these, there appears to be no limit to the number of transactions that our monetary system, together with its credit representatives, can perform. And, if there is no limit to the number of transactions, there would be no limit to the quantity of

money (for all practical purposes as it affects exchange and production).

Under such conditions as these, there would be no effort to force prices up, consequently there would be no necessity for a limited monetary supply to pull prices down, in order to maintain something like an equilibrium. We think it will be agreed that the absence of these opposing forces would allow a better understanding to exist between the classes and that this would tend to increase the feeling of confidence; which is highly necessary if we are to work harmoniously together so as to obtain the maximum of production with a minimum of effort. Under this ideal state of affairs, we could make the utmost use of our wonderful facilities of production; find employment for all willing and able workers; thereby greatly increasing the total production, which, in turn, would lower the price paid for the use of capital; thus greatly increasing wage.

(79) Disastrous Effect upon the Monetary Demand of Artificial Rise in Wages.

Now, let us consider another attitude or policy that the community could adopt, and see what effect it would have on the monetary supply. Let us suppose that, after the war, more and more of the workers formed themselves into trade unions, and, by methods more or less forceful, obtained for themselves a higher price for their service than they would immediately receive in a free and open competitive labour market. We will assume that the employers endeavour to the best of their ability to meet their employees' demands, so as to keep the industrial peace. In order to do this it would frequently be necessary to increase the price of their product, on account of the higher cost of labour, so that prices would keep going up and up. This would mean that a larger quantity of money would be required to purchase the total product. We must remember that every ten per cent. increase in price would require a ten per cent. increase in the quantity of money to purchase the same quantity of product; otherwise, so much could not be produced nor so much labour employed. For a short time it is possible that the extra monetary accommodation could be obtained from the banks, but, when the bankers reserves got lower and lower, the bank rate would have to

be made higher and higher. However willing the buyers might be to buy and to stimulate the circulation of money, by taking additional advantage of the credit facilities, there is a limit beyond which they could not go.

Probably before the limit was reached (which would be reached like the winding of a spring: the nearer the limit is reached the greater the tension) the buyers would more or less gradually (as prices got higher and higher) buy less and less; this would mean that less could be produced and less labour employed. If, however, the buyers kept on buying to the very utmost extent the credit facilities would allow, until the limit was reached, then the inevitable crash would come; with the terrible curse of excessive unemployment and commercial failure. This would lessen confidence and still further lessen the available monetary supply. It is needless to dwell on the loss and suffering this would inflict, or on the painful antidote that the economic law supplies; which restores the balance of price. This we have briefly considered in paras. 72 to 75.

(80) Vital Distinction in Principle and in Result between a Greater Willingness to Sell and a Greater Willingness to Buy.

Thus, while it is true that both parties (the sellers and the buyers) have to be agreeable to the terms before any monetary transaction can take place, and that it is the multiplicity of these monetary transactions that constitutes and represents the total monetary supply and demand—which total monetary demand governs the total production—yet, from the above illustration, there appears to be a vital distinction between what the sellers can do and what the buyers can do with regard to generating and maintaining the total monetary supply or monetary demand. What we mean by this is that it appears that the sellers of personal service for wages, by being more willing to sell, can generate an unlimited and perpetual monetary demand; whereas the buyers, by being more willing to buy (although they may for a time facilitate an immediate transaction, by paying a higher price, and by taking advantage of the elasticity of our monetary system) can only do this at the expense of the future, and the longer they continue and the more they concede, the greater the difficulty of exchange becomes and the surer must disaster follow.

(81) Employers by Conciliatory Attitude and Better Organisation can Help to Increase Monetary Supply.

We do not wish it to be understood by the above paragraph that we hold the employers entirely powerless—to help or to hinder the generation of the monetary supply. So far otherwise, we believe that a large proportion of our industrial disputes have arisen, more from a spirit of distrust and suspicion, than from the impossibility of showing the workers that it is to their best interest that a higher wage should not be paid, when such higher wage would increase the price of their product, or that the price should not be hindered from falling, so as to make their regular employment uncertain. Therefore, we hold that the employers, by approaching their workers in a spirit of conciliation and goodwill; by engendering trust and mutual confidence; by introducing profit-sharing schemes, etc., can go a long way towards removing the ground for mistrust and suspicion, and thus enable a larger monetary supply to be generated. Not only this, but the employers, by the better organisation of their works, may so lessen the cost of production as to increase the monetary supply—by lowering the price of their product without lowering wages.

The first impression that many will doubtless have upon reading the suggestion as to how an unlimited monetary supply can be generated (see para. 78) is that, however successful such a policy might be for creating an unlimited monetary demand, it would be very disastrous for the workers, on account of the very low price of wage many would receive. We think it can be clearly shown that the very reverse would be the result; that in place of the workers being paid a much lower price of wage, they would very soon be paid a very much higher price of wage, for the reason that they would create a very much larger monetary supply. Also, that it is the total sum of money for which the workers may be said to compete that ultimately governs the total amount they receive.

(82) Advantage to the Whole Community when All are Willing to Sell.

We gave an illustration in para. 14 of the effect of some workers accepting 66s. per week rather than remaining

unemployed. We saw that, by this means, they were able to demand 66s. worth of the product of the service of others; thus providing employment for makers of boots, clothing, producers of foodstuffs, etc., who, likewise, when employed, would demand, in return, a part of the product of the men in question, as well as part of the service of others. These, in their turn, would also demand a part of the product of the service of the foregoing and other workers, and thus, we could continue to the end of the chapter—were it not for the fact that the additional demand created by the men who were willing to accept 66s. per week, rather than remain unemployed, tended to raise the price of the wage received by every member of the labouring community. We all know that it is the too small demand for labour that keeps down the price paid for labour, and that to increase the demand for labour is to increase the price paid for labour.

It would not matter to what height the wage of the workers was driven by the law of supply and demand (the supply of labour we must remember is strictly limited), so long as the demand was generated by the willingness of the workers to sell their service freely. This would create a monetary demand that would be sufficient: (1) To purchase the product of every worker; (2) To allow us to make full use of our facilities of production; (3) To increase enormously our total production. This enormously increased total production would provide the opportunity for supplying a great and constant stream of fresh capital, which, seeking investment, would drive down the price the workers pay for the use of it to the very lowest level.

We think it will be agreed that, if employment is the exchange of the service, or the product of the service, of one for part of the product of the service of others, it follows that, if all were willing to exchange freely their service, or the product of their service, for part of the product of the service of others, all could be freely employed. On the other hand, if some withhold their service, or only sell their service under certain arbitrary conditions, others cannot be employed—or only employed under certain arbitrary conditions.

The point that we want to bear in mind is, that the monetary supply must be limited to that extent, and to that extent only, that is necessary to keep prices down and that, if we lessen the attempt to force prices up, to that

extent we lessen the necessity for the counterbalancing forces to keep prices down ; and that it is the forces that keep prices down that are so detrimental to the best interest of the workers.

(83) Evils of Low Wages.

While it is therefore desirable that the workers should be willing to sell their service freely, it is also desirable that they should obtain the very highest market price for their labour ; for it is by this means that they insure selling their service where it is of the greatest worth. The latter is most important both with a view to the material welfare of the workers and benefit to the community at large. The tendency of low wages is to lessen the productive efficiency of the workers and the care the employers should exercise in making the utmost of the service of those they employ. Low wages also open the door to individuals with low organising ability to slip into the employers' arena : thus usurping a position in the realms of industry, by which they impose great loss on the workers and from which they derive little or no benefit themselves. Under normal conditions and without any organisation, many of the workers are apt to be content with their economic position ; the poorer and the more ignorant they are the more they appear to fear a change, lest worse evils befall them. Indeed, as a class, the workers, apart from organisation, may be said to be conservative, and are inclined to be apathetic rather than alive to their own best interest in securing the highest reward for their service.

Wages Information Scheme.

If buyers and sellers are to bargain on an equal footing, it is necessary that they should be equally informed as to market conditions. In the past the employers, as a rule, have had the advantage in this respect. It is a large part of their business to keep informed of every change in the price of raw material ; of the price their competitors pay for labour, and the price they are able to secure for their product. Such is not the case with labour. The main interests of the workers lies in improving or maintaining the quality of their product ; they are not specialists in anything else. In some small degree the Trade Unions have remedied this defect by fixing a minimum rate in certain large sections of

industry. Unfortunately, the minimum is, only too often, the maximum also, and its inelasticity has most disastrous effect on industry and on the welfare of the workers eventually. We propose that, as an alternative to the fixing of wages by the Trade Unions and Trade Boards, the Government, to protect the workers, should establish a wages information scheme and manage it under the local Labour Exchanges as follows :—

First. Every employer should be compelled periodically to submit information to the local exchange concerning the occupation and conditions of employment of every worker he employs, whose wages are below 60s. per week, together with the age of the workers, the hours of employment and the wages paid.

Second. Every worker should be requested to confirm the above information at the same exchange.

Third. The local exchange would register the facts obtained and classify same. When any employer was found to be paying below the general market rate of wage for the district and for the class of labour he employed ; or was not providing regular employment ; or, when the conditions of employment were otherwise unsatisfactory, he would be notified, that, unless he quickly reformed, his underpaid workers would be encouraged to seek better conditions. The exchange would be empowered to facilitate their transference and, if necessary, the cost of their removal would, in the first place, be undertaken by the labour exchange, to be afterwards repaid by the workers in question.

Fourth. The rate of wages paid in the various industries and in the various districts would be published in the Press.

Fifth. The employers should be encouraged to enter into profit-sharing arrangements with their workers, and to give them a share in the control of their enterprises and conditions of employment. This could be done by giving the firms who conceded these terms the first choice of the best workers who desire some share of the profits and of the control of their conditions of employment. If this inducement was not sufficient, it might be desirable to grant those firms, who introduce an approved scheme of profit-sharing and joint control of the conditions of employment, a rebate from the rate of income tax.

Sixth. The leaders of the workers, in the principal industries, should be encouraged to run a few enterprises in

their respective industries under the management of the workers, who would select their own manager, and entirely control their own conditions of employment. To this end, the Government should be willing to advance a substantial share of the capital required (say up to 75 per cent.) as a first charge on the undertaking, at a low rate of interest (*i.e.*, at the price the Government has to pay). The capital sum could be repaid over a term of years, during which time the workers could accumulate a considerable proportion of the capital required. The workers and their associations, or any outside individuals or societies, should be induced to subscribe the balance; consisting of preference share at a higher rate of interest. The workers should further increase their investments in the enterprise, by leaving 12½ per cent. of their total wage to accumulate and to be placed to their individual credit; afterwards to be transformed into the workers' ordinary shares, until one-half of the financial interest in the company was represented by the workers' ordinary shares. After the debenture interest was paid to the Government, and the interest provided for the preference shareholders, the balance of profit would be divided between the ordinary shareholders. The accumulated deferred wages of the workers which had been subscribed for the ordinary shares, would form the fund for the amortization of the Government debenture stock. The workers should be encouraged to hold their ordinary shares, but would be allowed to raise money on them, or to transfer them to any other workers engaged in their enterprise. In the event of any of the workers leaving the company, they would have to dispose of their investments of ordinary shares to one or other of the remaining workers. Under the above arrangement, the workers would receive the whole of the profits of their industry; which profits would be distributed in proportion to their accumulated wage earnings. The workers would thus have every inducement to put forth their best efforts to promote a profitable business. At first it might be desirable for the Government and the preference shareholders to appoint the auditor, who would see that the wages paid did not exceed the earnings. This could be done under a system of costing.

There is also a scheme that could be introduced that would tend to keep more men employed on the land, and thus, to increase the production of foodstuffs, and to

improve the physical health of the nation, without in any way increasing prices.

For many reasons we should have preferred a voluntary scheme under the control of the Trade Unions. We fear, however, that such a scheme could not be thoroughly established unless under the ægis of the Government. We have only suggested that the Government should inaugurate the scheme on condition that when 60 per cent. of the workers in any industry expressed a desire to take over their part of the scheme they should be permitted to do so and to run it either as a voluntary or a compulsory scheme.

The Value of Organisation.

We realise increasingly the value, in these days, of organisation in the industrial world as a means of voicing the needs and desires of men and of assisting to secure their welfare. There is much in the present Trade Union Organisation that already serves a useful purpose, but its measure of usefulness in the future will be in proportion to the degree of its apprehension of, and accommodation to, the changing needs, opportunities and conditions of the industrial life of the coming days. The permanent usefulness of any institution can only be maintained by taking long views so as to avoid the mistake of mortgaging the future for some temporary gain. We must never forget that organisation exists for men and that men are greater than the organisation. Many thoughtful workers to-day are questioning the wisdom of maintaining a flat rate of wage for the varying grades of industrial efficiency. It is thought by some that the best men in every industry should be encouraged to take the lead in lifting the work to a higher level, and by their productive efficiency, combined with that high standard of workmanship, which no other nation has yet equalled, to stimulate their fellows to improve the quality and increase the output of the industries in which they are employed. It has been suggested that in those trades where it is possible to institute grades of industrial ability, certificates representing different degrees of efficiency might be granted. This would secure that men were being paid according to their ability. It would also have the effect of encouraging a man to improve his efficiency and of stimulating interest in the work and that spirit of

enterprise and healthy rivalry which is so great a factor in any real success.

The moral gain accruing to the stimulation of effort will probably be even greater than the material. Men may not damp down their natural love of excelling in work without damaging such capacity for enthusiasm as they have inherited ; the hurt done to this true instinct cannot be estimated in material terms alone. The evaluation of any system for procuring a just distribution of the rewards of labour is incomplete that fails to take into account its effect on the moral fibre of the worker.

(84) The Keen Demand for Labour Created by the foregoing Policy would Ensure a Good Price of Wage.

We must remember that the workers would be further safeguarded from unscrupulous employers, and would be assured of receiving a just and increasing wage through the greatly increased demand for labour which would be engendered by their greater willingness to exchange their service. This fact alone—the increased demand for labour —would secure such favourable market conditions for labour that, without any organisation, the workers would be assured of a more just and a larger wage. For example : Supposing you have some good potatoes to sell and a lot of other growers also have a large quantity for sale, and supposing there is only a limited number of buyers, who, therefore, do not require all the potatoes that are offered for sale. We know that, under such market conditions, it would be very difficult to get a good price, and if there were some crafty buyers, and if most of the sellers were very hard pressed and were obliged to sell, it does not require much imagination to see what the result would be. On the other hand, if a reversal of such conditions prevailed, and if there were plenty of buyers and only a limited number of sellers, a very high price would be paid for the best sample, and the price for the poorer qualities, if sound, would be anything but low. He would have to be a very poor seller indeed who would not get a fair price for his sample under the latter conditions.

(85) The Labour Market Conditions almost Entirely in the Hands of the Worker.

The conditions of the labour market are almost entirely controlled by the labourers themselves : the more they are

willing to sell, the greater must be the demand for labour, for, after all, employment is only the exchange of the service of one (or the product of his service) for part of the product of the service of others. The facility with which this exchange is effected mainly depends upon the cumulative result of the willingness of the individuals to exchange their respective services. We have seen that the cumulative result of the willingness to sell, converts itself into the effective demand. The greater the effective demand, the greater will be the demand for labour. We all know that the greater the demand, the higher will be the price. Especially must this be true with regard to the labour market. In this market, on the one hand, there is only a limited number of workers to be employed; on the other hand, there are relatively only a few employers actually required to employ all the workers, and there is a large number of potential employers, of greater or less organising ability, available who could employ an unlimited number of workers. Unemployment is not caused by the dearth of employers, but by the limited effective demand.

(86) Present Mobility of the Workers Contrasted with the Past Assures Us of Better Labour Conditions.

Coincident with the great change that has taken place in our facilities of production there has been a great change in our facilities of communication, transport and locomotion. Again we can say, "We are no longer the helpless creatures we were one hundred and fifty years ago." Then, the vast majority of the workers could neither read nor write, and many knew nothing of the conditions of employment and wage beyond walking distance of their doors. Such is not the case to-day. With the education of the workers; the growth of the popular Press; the introduction of the bicycle and other means of locomotion, the knowledge and the mobility of the workers have been enormously increased. This increased mobility of the workers, together with a greater demand for labour and a larger total production, is the greatest assurance the workers can have of receiving a just and increasing wage.

(87) The Necessity for a Good Relationship and a Better Understanding Between the Classes.

To show how necessary it is for the future well-being of the workers that a feeling of goodwill and confidence should exist between the classes, we must draw together some of the facts we have just considered, together with a few fresh thoughts. These will reveal to us that we can only make full use of our facilities of production, and insure a maximum wage for the workers, in proportion as we can establish a feeling of confidence and goodwill between the classes.

(88) Great Increase in the Rate of Interest Caused by the War.

From a material point of view, one of the worst features of the late war has been the great rise in the amount that is being paid for the use of capital. The year before the war £3 8s. was the average return the investor received upon the value of his holdings in consols. This year the yield is about £5 12s. 6d., or about two-thirds as much again.

(89) The Effect of the Higher Rate of Interest on the Price of the Articles We Buy.

To understand what effect this higher price paid for the use of capital must have on the real wage of the workers, we should try to realise the part capital plays in the production of every article we buy ; by this means we should see that any fluctuation in the price we have to pay for its use affects the price of the articles we buy.

The price paid for the use of capital appears to enter, at every stage, into the cost of production and distribution. We find it in the landlord's rent : in the form of interest on his capital investment—as apart from his strictly economic rent. We find it in the price paid for professional service : in the form of a higher charge made, on account of the wealth expended to acquire the necessary qualification. We find it in our local rates and in the national taxes : as that part of the charge which is made for the borrowed wealth. We find it in what is frequently looked upon as the employers' profit, whereas it is that part of their income derived from the capital invested in their business. (Not until an employer has set aside a fair market

price for the use of his capital does he made an actual profit, as the reward for his service as a superintendent.) We find it in the cost of transit : in the form of interest on the capital invested in railway and shipping companies, etc. We find it in the merchants' and dealers' profits : in the form of interest on their capital. We can thus see that the price paid for the use of capital is, in every part of the cost of production, entering into the cost of the raw material ; and forming part of the cost of every change it undergoes until it emerges at last into the hands of the consumer.

A higher price paid for the use of capital means, therefore, a larger proportion of the wealth that is produced by labour and capital being transferred from the pockets of the workers into the pockets of the capitalists. It is true that this transference is frequently made very slowly and quietly. In some cases it is a long time, after a general advance in the price that is paid for the use of capital, before the higher price, in those particular instances, is passed on to the consumer. In many cases the change is made so quietly, and in such small imperceptible steps, that it is only when a view is taken over a considerable period of time that we can see the change that has been made. The outstanding fact is then revealed to the workers that they have to pay more for the goods they require—while their monetary wage remains practically stationary.

(90) The Necessity for Reducing the Rate of Interest as Quickly as Possible.

With such facts as these before us, and, remembering Mr. Hobson's statement on " the rise of interest on capital " and " the fall of real wages " (see para. 10), we can see the importance of reducing the rate of interest as quickly and as much as possible, in order to maintain and increase the real wage of the workers.

(91) A Better Understanding between the Employer and the Employed would go far to Lower the Rate of Interest.

(*a*) A good relationship and a better understanding between the classes would encourage a spirit of mutual trust and co-operative effort. This would be conducive

to a freer interchange of service so as greatly to increase the total production. The illustration of the "Eldorado" potato showed us that to increase the quantity of capital is to lower the price we pay for its productive service.

(*b*) The mere fact of a good relationship and a better understanding existing between the classes would increase the feeling of confidence. This, alone, would tend to lower the price paid for the use of capital, irrespective of any increase in the quantity of capital. (We think the above is sufficiently obvious to warrant us in leaving the statement bare.)

(*c*) The greater degree of confidence in the industrial conditions in the country, brought about by a better understanding between the classes, would encourage the retention of a larger proportion of our savings at home. For some years prior to the war the amount of our savings invested abroad had been growing at a very rapid rate. This was, doubtless, partly responsible for the rate of interest increasing from the end of last century. Even if the rate of interest in our home market fell to a very low level, the feeling of security, together with a good deal of smug, if not real, satisfaction, in having one's investments in view or within easy reaching distance, would be sufficient attraction for many to invest at home rather than abroad.

(92) An Indirect Way by which a Good Understanding between the Classes would lower the Rate of Interest.

Besides the above ways in which a good relationship and a better understanding between the classes would lower the price paid for the use of capital, there is another and more indirect way, viz., the greater efficiency of the employers as economic organisers, and the greater efficiency of the workers as wealth producers. Such increased efficiency swells the total production and thus lowers the price paid for the use of capital. It is only by harmonious and co-operative effort that the total production can be so increased as to lower the price paid for the use of capital, and secure to the workers the highest possible real wage. Such a happy result can only flow from a better relationship between the classes.

(93) An Unfortunate Fallacy that is largely Responsible for the Spirit of Distrust between the Classes.

One of the most unfortunate popular fallacies that prevailed before the war was the common idea that, when any employer was making a large profit, it was being made largely at the expense of his workers: that it was being sweated out of his workers' wages. This fallacy was very disastrous, for two reasons: (1) It made it appear that there is necessarily a conflict of interests between the employers and employed. This set up a spirit of distrust and suspicion, and was doubtless the cause of a good deal of industrial strife—with the consequent suffering and loss of production. (2) It tended to deter young men of ability from entering the employers' arena. There is a good deal of natural reluctance to exposing oneself to the risk of being charged with exploiting the labour of others for one's personal advantage, however baseless such a charge may be.

If we look at the facts as they really are, we shall see that it is not the able employer, making a good profit, who is opposed to the workers' best interests, but, rather, the inefficient employer, who may not be making any profit whatever.

(94) Bad Business Management a Great Tax on Production.

Walker, in his "Wages Question," states: "Bad business management is the heaviest possible tax on production, and while the incapable employer gets little for himself, the labourer loses heavily in the rate or the regularity of his wages." Contrariwise, good business management is the greatest aid to production, and while the capable employer may make much profit for himself, the labourer gains in the rate or the regularity of his wages, probably both.

(95, 96 & 97) Efficient Employers' Profits are the Product of Economic Management.

The successful employer does not make his profit by cutting the rate he pays for wages below what is being paid by his fellow competitors for the same class of labour in the same trade and district, but by endeavouring to grow two blades of grass where one grew before. This is accomplished

by the better organisation of his works and business; by avoiding all waste of time and material; by the use of up-to-date business methods; the most economic labour-saving machinery, etc. The result is that, more frequently than otherwise, he will be found to be paying the highest wages, selling his product at the lowest price, and reaping his reward, not at the expense either of his workers or the consumers, but by the degree of his skill as an economic organiser in comparison with his competitors. The false idea as to the source from which the profit of an efficient employer is derived, is one of the great underlying causes that hinder an efficient employer from making the utmost of his labour-saving machinery, and that prevent him from using unskilled labour to attend machinery that requires little or no skill. This hinders the employer from training the unskilled workers and making them of greater productive worth. The result not only causes a great direct and indirect loss in the total production (with the consequent higher interest rate), but it also imposes an undue degree of competitive pressure upon the unskilled workers when selling their service. This so lowers their wage that they are unable to purchase so much of the product of the labour of others, including the product of the more highly skilled workers.

(96) A better popular understanding of the laws that govern production and distribution would go a long way to remove the spirit of distrust and suspicion between the classes and thus save the loss that this distrust and suspicion involves.

If the workers realised that the more there is the more there is to divide, and that the division of the total production is greatly influenced in their favour by a greater total production, they would see how identical their best interests are with the best interests of their employers.

(97) They would see how it is to their best interests, as well as to the best interests of their employers, that the demand for the product of their labour should be as unrestricted as possible; that, under normal conditions, not only is the total production governed by the effective demand for the product of their labour, but also that an unrestricted demand for their labour is the greatest assurance they can have of receiving a just and increasing wage. They would see that an unrestricted demand for the product of their

labour can only be obtained in proportion as they are willing freely to exchange their service, *i.e.*, to sell their service freely for the highest price they can readily obtain.

(98) A Right Recognition of the Employers' Vocation would Increase the Efficiency of the Employers.

Further, if the workers realised that the profits made by the efficient employers are not a fund sweated out of the wage of the workers, but a prize secured by the employers' superior ability; that the service of an inefficient employer is dear at any price, and that the price of the prize won by the efficient organisers is of little importance, when compared with the saving and increased production that good management secures, it would go a long way to remove the distrust and suspicion between the classes. In fact, it would revolutionise the appearance of the employers' vocation. In place of being looked down upon as the exploiters of the service of others, they would be recognised as men of ability, filling a high and honourable calling as captains of industry, who are guiding and controlling our vast industrial army to victory over poverty and distress. This would stimulate the immaterial incentives so as to attract the best men and the most able organisers into the employers' arena. In turn, this would engender such a high degree of competitive pressure between the highly efficient employers, that, not only would all the inefficient and indifferent employers (whose organising service is dear at any price) be quickly squeezed out of existence—that is as employers—but it would also insure that the reward received for management would be kept down to the very lowest level. More than ever the employers' reward would consist, as we have already quoted from Walker's work, in " the joys of creative energy, the honour of directing affairs and the social distinction of mastership."

CHAPTER IX. ALTRUISM.

(99) An Appeal to Employers.

It has been well said that the present is the heritage of the past, and that the future generation reaps what is sown to-day. It cannot be denied that one reason for the unsettled conditions prevailing at present in the industrial world is to be found in the past attitude of many employers towards the workers in their employ. With many noble exceptions, the employers have too often been content to treat the worker as a commodity, rather than as a fellow man with inalienable rights and claims. The golden rule, of doing unto others as ye would they should do unto you, has been sadly neglected. In the past, many employers have considered that, when they have complied with all the requirements of the law, in providing safeguards, etc., in the factory, and have paid their workers the agreed wage, a square deal has been completed and their obligations are at an end. Many of them may have felt a sense of pride, because of the service they have rendered to the community, and to the workers they have employed, by providing the factory and plant, and by organising their enterprise upon a profitable base. Some may have even felt that they had put the community and the workers under an obligation by their foresight and ingenuity. Such employers have either overlooked the human element or, if they have regarded it at all, they have viewed the worker mainly as a power upon which depended the output of their plant, or which could precipitate a strike and thus bring their operations to a standstill. It has, therefore, been good policy to conciliate the workers in order to get as much out of them as possible.

It is the attitude of such employers as these (not to mention those employers who would not be above taking an undue advantage of their superior knowledge of market conditions when arranging the terms of employment) that has produced favourable soil for the growth of discontent and the spirit of grab, and, to that extent, has been responsible for many of the ills that have followed. Many of the workers who have been employed by such men have felt that they have been simply utilised as wealth-producing

machines for the benefit of their employers, and not as co-operating intelligent beings, with souls and feelings, who are contributing to the total production of wealth for the benefit of the community of which they form a part. It is true that some of the more intellectual of the workers understand that, as the employers are no more the arbitrary distributors of wealth than are the bakers the arbitrary distributors of bread, they are not the ultimate recipients of the product of their labour and are not ultimately responsible for the wages they pay. These men know that their wages must come out of the product of their labour and not out of their employers' pocket. But they are still not satisfied: their wider knowledge and outlook has revealed fresh reasons for discontent in the lack of the recognition and respect that they consider are due to those who labour. They know they are doing useful work for the good of the community, whether they are producing coals, tilling the land, or otherwise engaged in industrial affairs.

Many of the workers at present can hardly give expression to the thoughts that are surging within them: with new powers there come new visions and new desires. It would be false to paint all these new desires in fair colours of unselfish devotion to the common weal. It would be equally untrue to portray them as entirely selfish and materialistic. No intelligent student of human nature would expect, at such a time as this, that the workers as a whole should evince an altruistic spirit, or be moved by a common impulse to seek benefit for the whole community, unless they could see the benefit that would accrue to themselves. Unfortunately, hitherto, the workers have not been taught to take long views and to recognise the fact that their highest and ultimate good can only be achieved as they seek to promote the good of others. The desire for more liberty for themselves; for the abolition of what they term "wage slavery"; for greater opportunity for self-expression and self-determination, is as natural as it is just. At the same time, many of them are fully aware that specialised industries require a specialised organiser, as well as capital, and that, at present, they are not competent to take complete control of their industry, but they do feel they have a right to be consulted about their conditions of employment and to have some say in the management of the enterprise with which they are so indispensably connected. No man can say that these

aspirations are altogether unreasonable and that man was made for wealth and not wealth for man.

We cannot ignore this new spirit and outlook which is responsible for much of the unrest in the world of labour to-day. At all costs we must secure peace and goodwill between the various members of the community, not only to avoid useless suffering, but also to secure the good that can only be achieved through the harmonious co-operation of the community. Such a desirable state of things can only be gained by the earnest and persistent efforts of the employers in conjunction with the workers. The employers have a very difficult task to fulfil—a task that they can only accomplish by taking a much wider view of their responsibilities than many of them have hitherto entertained.

In the first place, every employer should appreciate the fact, with all its implications, that the human being he employs is in a category entirely distinct from that of his machinery or his horse. This may seem very obvious, but, unfortunately, in the past the machinery and the horse often received more attention. Employers have seen to it that their plant was not allowed to rust and deteriorate; they have seen that their horses were well fed and stabled and not over-worked, yet, only too often, in regard to the claims of that noblest work of God's handicraft, they have shown a callous indifference. Many of them have never realised their duty to the fellow-men they have employed. In dealing with this aspect of the question it must be stated with all seriousness that no economic peace worth the name is possible unless employers realise that the lives and welfare of those under their control merit the same care and consideration as they would exercise on their own behalf.

The first duty of the employer is to endeavour to interest the workers thoroughly in their work. "It is true that in proportion as labour can be interested in the work upon which it is engaged so it will be contented, and the more we can succeed in stimulating the interest of labour in its work the better will be the quality of that work and the happier the mind of the workman. . . . In the past a man could not make a boot or a part of a boot successfully unless he was more or less of an artist on that particular job, and a man might feel a deep sense of pride in his ability to produce a particular type of spur-wheel. In place of this the modern workman more generally sets the machine and then

watches or assists it to work."* Only too frequently this is all the skill and thought that are required from the worker, while the work tends to become correspondingly tedious. An effective substitute must be found for the great loss arising from the absence of the pride that the artist was once able to take in his completed work, not only by shorter hours of work and higher wages, but by every means that may tend to make the work of interest. In the first place, every worker should be encouraged to learn all he can about the business in which he is engaged, especially in every department in which he works. Instead of putting a man down to the first job available and keeping him at it from the first to the last day of his employment, it is far better to pass him through as many departments and as many processes as circumstances will permit. This will provide him the opportunity, not only of learning more about the business, but also of developing any special aptitude he may have for any particular class of work. Many a man can do one thing exceedingly well who would be only a very indifferent worker at other jobs. As a rule a man will enjoy any work he can do well. It is the square peg in the round hole that is bad for the peg and the hole. If possible, let every man be given a chance to find his special vocation. Further, every worker should be " instructed to ' go for the department manager's job.' This inducement—of course, the employee realises it is, for the time being, only an inducement—encourages him."

Every thoughtful employer would see to it that the workshop conditions are made as bright, healthy and attractive as possible. This is not only beneficial to the worker, but it also tends to promote better work and a larger output.

" The great development, the last few years, of recreation rooms, clubs, canteens attached to large industries, is due for its success not only to the fact that it provides comfortable places for the working people to have their meals, instead of going some distance to their homes, but it gives them an interest and something to look forward to which is outside their daily work but is associated with their factory."

Mr. G. Havinden, an exemplary employer, stated :—" In every business organisation I would recommend a Committee should be set up, reflecting the soul of the house, representing the physical, moral and spiritual element. The members

* "System," June, 1919, p. 406.

of the Committee should be the voice and conscience posted to do sentinel duty for capital that it may be reminded of its obligation to the workers, and true welfare work should be the overflow of super-abundant vigour expressed in sheer goodwill."

The two great movements from which great things are expected, for maintaining industrial harmony and that call for earnest consideration on the part of all employers, are the inauguration of some form of profit-sharing or co-partnership, and the providing of some means for giving the workers a voice in arranging their conditions of employment.

With regard to profit-sharing schemes, we would venture to suggest that the workers should be financially benefited in proportion as the output of the enterprise increases or as the cost of the unit of product is reduced. With the urgent necessity before the country of greatly increasing our exports, to liquidate the indebtedness incurred abroad and to pay for the imports of raw material and foodstuffs required, it is essential that prices should be brought down to a reasonable level as soon as possible.

We are convinced that a large proportion of industrial unrest and suspicion in the minds of the workers arises from the lack of understanding of the practical working of their industry. We believe that if the workers were allowed to elect one of their number to be one of the directors of the enterprise much misapprehension would soon be removed. It would enable them to voice their difficulties before the management and to make suggestions and recommendations for the comfort of the workers. They would also be better able to appreciate the difficulties and losses that are sometimes caused by paying higher wages and passing on the higher price to the consumer.

At the present time, this procedure of increasing the monetary wage, with the momentary advantage to the workers, is held as the panacea for the greater part of our industrial ailments, but we are convinced that, if the workers saw the final result of this policy, they would understand that it is more beneficial in the long run to keep down the price of their product to the very lowest figure. They would see that, by keeping down price, they would ensure a more ready and steady market: thus securing regular employment for the workers and a larger output from their plant. The insight into the working of their industry would show them something about overhead expenses—which frequently

form a considerable part of the cost of their product. They would then be able to appreciate the fact that, if the output of the plant is only one-half of what it is capable, the overhead expense per unit of product is double what it should be. They would realise that, when this is the case, it must frequently be at the expense of the workers, or must cause their product to be sold at a higher price than would otherwise be necessary: the latter being even more detrimental to the workers in the long run. It is only as the workers are more closely associated with their employers, and see more of the intricate problems of business, that these and other facts can be fully grasped.

The employers should realise, before it is too late, the great change in the outlook and the capacity of the workers that is being wrought by the better education of the great mass of our population. The workers are no more the dumb creatures they were 100 years ago: when the majority could hardly read or write. Whether for good or ill (for good we unhesitatingly believe), by educating the workers we are creating fresh problems and fresh aspirations. To endeavour to maintain the old ideas of industry, and to shut our eyes to the transition that is taking place, is akin to sitting upon the safety valve of our productive power and courting, nay forcing, an explosion that will bring ruin to us all. We therefore urge the employers to relinquish the old idea of autocracy of control, and to further the democratisation of industry: which will result in the general good of the whole community.

The employer or employee whose relations with his fellows is conceived in the spirit of the man who asks "Am I my brother's keeper?" is diametrically opposed to those whose liberal and enlightened views hold out the greatest prospect of giving a weary world permanent industrial peace.

(100) The Root of the Matter.

In an article on "Reconstruction" in the *Hibbert Journal*, July, 1917, Mrs. Helen Bosanquet stated:—

"We live in a world of things and actions; but we live also, all of us, in a world of ideas—ideas of what actions are right and what wrong, of what things are good to have and what best, of our relations to other people and theirs to us, and it is this world that cries for reconstruction. Whatever we may think the proximate causes of the war to be, we must find them ultimately in the fact that men

have believed their good to lie in directions which lead to conflict rather than to harmony; and the problem which most urgently demands solution is the construction of a system of ideas which will *not* lead to conflict, but will naturally and inevitably involve co-operation."

(101) Altruism only slowly Recognised as a Principle, and even then Difficult to Carry Out.

Unfortunately, as civilisation has progressed men in the industrial world "have believed their good to lie in directions which lead to conflict rather than to harmony." This belief, of course, is due to the persistence of that primitive instinct of the individual to secure for himself that which seems to him to be beneficial, whatever the consequences may be to others. The child learns only slowly that its individual good is bound up with the good of the family, of which it is a member, and that the social harmony and well-being, in which lie its own best interests, are achieved only by the repression of many instinctive desires. The extension of this idea among communal and international life is necessarily slow. It is true that the numbers are increasing of those who recognise the solidarity of our life and that no member or section of the community can suffer without adversely affecting each and all. It is one thing, however, to recognise such a truth, but quite another thing to apply it in an arena where the forces of individualism have for so long held sway. In the stern contest for the immediate necessaries of life ideas affecting our more ultimate good are so easily laid aside when they present themselves. We are so concerned with the struggle that we forget to ask whither the struggle is tending. Moreover, the ultimate results of our actions are frequently so long deferred, and of so indirect a character in their bearing upon the whole community, as to prevent us from recognising them when they react upon us.

(102) Economic Necessity Compels Us To-day to Seek a Solution on Altruistic Lines.

To-day, however, we are compelled by the needs and problems of the immediate future to reflect upon the result of our actions in relation to industrial life, and there is an increasing number who realise that, instead of first seeking their individual good, their first duty is to serve their

country well. They are also beginning to see that, in serving their country well, they are achieving their highest individual good : that, in fact, their best interests are to be secured by serving their country well rather than by striving for their own individual gain. All good business men, for instance, thoroughly appreciate the fact that their best interests are closely associated with that of their clients : that it is far more important to see that their customers are well served than to grasp some extra temporary profit. To-day many of the leaders of labour are beginning to understand that the workers' best interests are not served by strife, but by harmony, and by increasing the total production, because only as the total production is increased can the workers' real wage be increased to any considerable extent. They are anxious to find a way by which this can be accomplished and the workers be assured of receiving their due share of the increased production. While this is true, but few realise the foolishness of any attempt to enrich themselves at the expense of others. Yet this is so for the following reasons : (1) That such an attempt sets up a state of conflict and friction, and, in some cases, results in our getting the worst of the fight, *i.e.*, we become direct losers instead of gainers ; (2) that conflict and friction cause a very great economic loss, which loss has to be borne by the whole community, including ourselves ; (3) that even when we are successful in enriching ourselves at the expense of others, our individual gain is frequently of a very short duration, on account of a chain of actions and counteractions that is set in motion by our unsocial practice : which chain of actions quickly turns our immediate gain into our permanent and ultimate loss.

We now propose to consider some of the actions and counteractions that are brought into play, when we attempt to enrich ourselves at the expense of others by the means of collective bargaining, and to see what effect they have on the capitalists and the poorer workers, as well as the indirect result on our own future welfare. We think it will be clearly seen that, even if we leave out of account the risk we run of getting the worst of the fight (point 1) which is by no means negligible, the losses incurred under point 2 are far more than sufficient to cancel any immediate gain we may secure by the above means.

CHAPTER X. DISADVANTAGES OF COLLECTIVE BARGAINING.

(103) Trade Unionists have Striven with the Best Intentions. This is not an Attack upon their Honour but a Candid Statement of View.

Before proceeding to consider the incalculable effect of collective bargaining on much of the poverty that exists to-day and the counter effect of such poverty on the wage and well-being of the trade unionists, we would like to emphasise, what has already been stated, that it is the furthest from our intentions to make any attack on those who have hitherto adopted or supported trade-union methods for raising wages. Rather, we should say that we feel perfectly sure that they have striven, with the best intentions in the world, to relieve poverty, to lessen unemployment, and to improve the position of all the wage earners. Therefore, if in stating certain facts and opinions as they appear to us, we should seem to be accusing others of callousness or cruelty, we wish it to be remembered that this is no more the case than if, in supporting the open-air treatment for tubercular patients, we should be accusing the doctors of the mid-Victorian era with the murder of some of their patients; because they placed them in conditions that tended to shorten their existence rather than to prolong it. Both the doctors of those times and the trade unionists of to-day were, and are, fully justified in their conduct when doing the best within their knowledge. After making this explanation we feel that it is only just to our readers that we state our views candidly, without fear or favour, with regard to the effect of collective bargaining on present-day poverty; in order that we may show the counter effect of poverty on the total wage fund.

If our deductions are sound, as to the laws that govern production and distribution, we think it can be clearly seen (without any complicated calculations and demonstration) that, instead of the capitalists receiving a smaller proportion of the total production (through paying a higher price for *part* of the goods and service they purchase),

to the advantage of the workers, they, the capitalists, receive a larger proportion of the total production (to the disadvantage of the workers) by the higher prices lessening the total production; thus increasing the price paid for the use of capital to a far larger sum than they are called upon to pay—through any advance in prices.

Unfortunately, the actions and counteractions that are brought into play, when we attempt to enrich ourselves at the expense of others by the means of collective bargaining, do not stop at lessening the total production and granting to the capitalists a larger proportion of that total production: with the consequent reduction of the total wage fund. They also affect the distribution of that fund, so that whatever advantage some of the workers may, for a short time, secure by the above means, is secured at the cost of their fellow workers and eventually reacts to their own disadvantage.

(104) Collective Bargaining Greatly Increases the Competitive Pressure upon the Unprotected Workers when they Attempt to Sell their Services.

The fact that the poor, in company with the capitalist, have to pay part of the higher price of the wage, obtained by collective bargaining, by the higher price of the small quantity of goods they can purchase, only relates to an infinitesimal part of the loss they are called upon to endure through the above system. It is when we come to consider the influence of trade unionism on their competitive conditions, that we see the terrible harm it inflicts upon them. We saw, with regard to the capitalists, that, although they have to pay a part of the higher price of wage, yet the indirect result of the higher prices is to lessen the total production and the accumulation of capital, which, in turn, *lessens* the degree of competitive pressure imposed upon the capitalists, and thereby diverts to them a larger proportion of the total production. The direct and indirect result of trade unionism has the reverse effect on the poor, casual and unskilled workers. So far from lessening the degree of competitive pressure, to which they are exposed when selling their service, it very much *increases* this competitive pressure; and it is this excessive competitive pressure which is the direct cause of so large a proportion

of present-day poverty. If this excessive competitive pressure were removed, or even if only considerably modified, poverty, as we know it to-day and before the war, would cease to exist, for, as capital produces capital, poverty produces poverty. Those who hold that as poverty has always existed so it must continue to exist until the end of time, do not realise the fundamental change that has taken place in our economic possibilities during the past one hundred and fifty years. Before that time, it was true that poverty was the only possible state of existence for the great mass of the people. It was the iron law of subsistence that kept the growth of the population in check. Then, indeed, "Poverty was a natural poverty," as Sir Chiozza Money has reminded us, but "to-day poverty has become a crime."

(105) Collective Bargaining Produces other Factors that Mar the Looked-for Results from Higher Wages of One Section.

Unfortunately, in connection with trade unionism, factors are brought into existence which, to a very considerable extent, mar, if they do not utterly destroy, the beneficial result that should naturally follow higher wages. If it is true that to increase the wage of a worker with a family from 60s. to 75s. per week is to increase his productive capacity, it is certainly true to say that if we increase the wage of a worker with a family from 30s. to 45s. per week, an increase in much greater degree in his productive ability will naturally follow. In the former case, the worker can obtain the nourishment and clothing that is necessary to maintain himself and his family in a good physical state, and, in most cases, to enjoy some of the luxuries of life which the whole labouring community should be able to obtain. But with regard to the poorer worker, with a family who is in receipt of 30s. per week, his income is not sufficient to feed and clothe himself and his family upon the same scale as we expend upon the poor in our workhouses. The mere fact, of his not being able to obtain sufficient nourishment and suitable clothing, is sufficient to lower still further his productive efficiency; it certainly makes it much more difficult for him to improve his position. Not only so, but it also prevents him from giving his children an opportunity of learning a trade, and, thereby, lessens the productive efficiency of the future generation of wage earners.

We do not wish to infer that trade unionism, by imposing an excessive degree of competitive pressure upon the poorer unprotected workers by the system of collective bargaining, is solely responsible for all the poverty that exists, or for the low degree of the productive capacity of many of the poor. In some cases it has been augmented by drink and other causes. But we do assert that, so far as the trade unionists have increased the price of commodities, they have lessened the effective demand, and the lessened effective demand has lessened the total production.

(106) An Unequal Proportion of National Income Diverted to the Capitalists by the Action of Trade Unionism.

We further maintain that the lessened total production, together with the lessened monetary supply, has diverted a larger proportion of the national income into the pockets of the capitalists, and that, by the restriction of certain markets for labour, the trade unionists have caused an unequal and unjust distribution of the total wage fund. Therefore, the natural wage of the poor appears to be three times diluted: (1) by the lessened total production available for general distribution; (2) by the granting to the capitalists of a larger proportion of the lessened production; leaving a smaller total wage fund; and (3) by the unjust distribution of that already twice reduced fund.

(107) Incalculable Loss in Total Production because Large Numbers Live on or below the Poverty Line.

It is estimated that from 20 to 30 per cent. of the population (in normal times) lives below what we might call the poverty line, apart from the large number who live just upon the margin of that line. The loss to the possible total production, through the meagre effective demand and the low productive efficiency of so large a body of the population, is incalculable. It is also impossible to estimate what the loss of the total production must be through large numbers of able-bodied men being unemployed, semi-employed, and others who are not employed in productive occupations (not to speak of women who during the late war showed such marvellous powers of adaptability and industrial efficiency). We should always remember that

"supply is demand, and demand supply"—thus to increase the productive output of the above is to increase the demand for the product of the service of others to a corresponding extent.

(108) Losses Caused by Strikes.

The losses caused by conflicts, when the conflicts are of the nature of a strike, are very obvious; particularly the immediate losses that are incurred in wages, both among the strikers themselves and others who, through their action, are directly prevented from being employed. The future loss is not quite so obvious and much less easy to assess, *i.e.*, the loss caused by the dislocation of business: some of which is diverted never to return during the lifetime of the disputants. There is also a very considerable immaterial loss, especially when the strikes are of long duration. We are referring to the suffering and privation that have to be endured by the strikers and their families, together with the other workers and their families who are thrown out of employment as the direct or indirect consequence of the strikes. According to the "*Daily Mail* Year Book," 1913 :—

"The direct loss to the country caused by the coal strike of 1912 was estimated at £36,000,000, made up of: miners' losses, £7,000,000; losses by other workers, £8,750,000; loss in coal production, £10,000,000; loss in production in other industries, £10,000,000. The indirect losses were very much greater and are incapable of being assessed."

The same Year Book also stated :—

"The growth of unemployment in other industries directly due to the coal strike is shown by the following figures :—

	No. Out of Work.		No. Out of Work.
March 4	250,000	March 9	450,000
„ 6	350,000	„ 13	565,000
„ 7	375,000	„ 20	720,000
„ 8	400,000	„ 25	800,000."

(109) Losses Caused by Friction Contrasted with the Gains that are Possible by Smooth Working of the Industrial Machine.

But great as our losses caused by conflicts (*i.e.*, strikes) may be, in our opinion such losses are infinitesimal compared with the losses that are caused by friction. Friction is produced by the spirit of distrust and suspicion which is

engendered when one is attempting to snatch something from the possession of others. There is also what we may term an Economic friction engendered when a higher wage is secured, which results in increasing the price of commodities. It may be likened to pouring sand into the bearings of our monetary machine, in place of the lubricating oil of confidence and goodwill. With the former an enormous loss of power is involved ; but with the latter the machine will respond to the very slightest touch. We saw on paras. 77 and 78 that our monetary machine, or rather our monetary system, with all its defects, could provide us with the necessary means that would enable us to utilise fully all our productive resources. We saw that, if all were willing to sell freely their service for the highest price they could readily obtain, there would be practically no limit to the monetary demand. Whereas, when we are successful in attempting to obtain a price for our service higher than that which we should receive in a free and open competitive labour market, we tend immediately to lessen the monetary demand and thereby lessen the total production. Such is the insidious loss that is indirectly involved by the friction engendered when we obtain an immediate gain, at the expense of others, by means of collective bargaining.

CHAPTER XI. ADVANTAGES OF AN OPEN MARKET.

(110) Any Temporary Set-back to Wages of the Better Organised Workers by an Open Market quickly Counterbalanced.

We can quite understand the attitude of the trade union officials. They think there are quite enough machine minders engaged in the various industries and that, to allow more labourers to compete, would only mean to lower their wage. Does this necessarily follow? We think not. Believing, as we do, that there is practically no limit to the total wage fund, nor any limit to employment, it seems to us that, as the workers make exchange (and thus employment) more free (by being more willing to sell their service for the highest price they can readily obtain), they would increase the total production and the total monetary demand. To increase the total production and the total monetary demand is to increase the total wage fund—other factors being equal. We do not wish to infer that, under no circumstances whatever, the more equitable distribution of the total wage fund, brought about by the above means, would not cause a temporary set-back in the monetary wage, which some of the better organised (although not highly skilled) workers have secured by restricting the free market for labour.* But we do hold that any such set-back would

* Prof. Smart in his work, "The Distribution of Income," p. 169, states: "It is notorious, for instance, that some of the less skilled but well-organised trades have attained a level of wages much higher than that of allied skilled trades where the organisation is weak." When a large number of machine minders of little skill were allowed to enter the engineering workshops, in some cases it was found that they were soon receiving a larger wage than some of the skilled engineers who were required to instal additional machinery that could only be done by highly skilled workmen. In a free and open competitive labour market such a condition of things would be practically impossible, because under no circumstances can an unskilled worker compete in the occupation that demands considerable skill, whereas the skilled workman can always compete in the unskilled labour market. If a large number of men of little skill were allowed to do work that has been done by skilled workmen, in many cases the skilled workmen would be required to superintend the less efficient workmen and to instal, set, and adjust the machinery that was being worked by the less skilled attendants.

be of a very temporary nature, and that it would be quickly counterbalanced (1) by the lower price they would pay for the commodities they require; (2) by the higher monetary wage they, in common with all other workers, would soon receive: through the increased demand for labour, and by the larger monetary supply they would create by their greater willingness to sell their service. We believe it would be found that, by throwing open the labour market free to all to enter, and thereby increasing the wage of the poor, they would set in motion two forces that would have a very salutary influence on the well-being of all the workers.

(111) The Salutary Forces Resulting from a Free Labour Market: (1) An Increased Monetary Wage; (2) Improved Productive Capacity.

1. The wage of the poor being increased, their effective demand would be increased; that is to say, they would demand more of the product of the service of others, and thus increase the demand for labour. We must remember that this increased effective demand for labour would not stop at the first additional purchase. For instance, if A can buy more of B, it thus induces B to sell and enables him to buy more of C, who likewise is induced to sell; and this can go on, until X can buy more of Z who is also induced to sell and thus enables him to buy more of A, and so on; until the increased monetary demand, created by the greater willingness to sell, would have increased the wage of the whole community.

2. The other salutary force that would be set in motion by throwing open the labour market, and thereby increasing the wage of the poorer workers, would be the improvement that, without doubt, would take place in their productive capacity. One of the soundest arguments in favour of trade unionism is that, to increase wage is to increase the productive capacity of the workers. This is not questioned by any one who has made a study of our social conditions. "Pay a man more and he will earn more, other factors being equal" is, with some exceptions, a general truth.

(112) The Possibilities.

It is difficult to realise how rapidly and to what extent our productive powers would develop if we fairly

utilised our present productive facilities. The table No. 3, para. 42, shows what we consider it would have been possible to have done in the past, and what would have been the effect on the total wage fund of the doubling of out total production, viz., to have increased it from £800,000,000 to £2,900,000,000. Even if the total wage fund were only increased to one-half of that amount it would be approaching double the amount of the pre-war total wage fund—assuming that prices remained at the pre-war level.

CHAPTER XII. INDUSTRY AND INTERNATIONAL RELATIONSHIPS.

(113) Economic and Commercial Causes are Frequently Responsible for International Troubles.

A peaceful settlement of our industrial conditions, together with the development of our large home market, would go a long way towards avoiding many international questions that, at present, only too frequently arise from economic and commercial causes. When our home market is restricted, by the higher prices lessening the demand for the product of the workers, there is an insistent demand for the opening up of some foreign market; if possible by peaceful penetration and the merit of the goods we have to sell. If this is not readily accomplished a little diplomatic pressure is used, and sometimes a little forceful persuasion—something akin to the peaceful picketing that is practised during industrial disputes—thus, by easy stages, we can arrive at a position where force is the deciding factor; rather than the right of every individual and community to choose freely what they consider is for their best interest. Other nations are also interested in the same markets, and it is not to be wondered at that, frequently, different points of view are taken as to who has the prior claim.

(114) Armies and Navies are thus Needed to Enforce Rights to Particular Markets.

Armies and navies are, therefore, maintained to enforce what we and they believe to be our respective rights to these markets. Practically all the members of the community (excepting the Friends), and not the least the workers, believe in the force of armies and navies as being essential for the above purposes. When the armies and navies are in existence the tendency is for each nation to try to surpass the other. We believe we must have a superior navy to keep our markets open to us. The

Germans believed that they must have a superior army so so as to command what they termed " a place in the sun."

(115) Cause of the War believed to be mainly Economic.

With such great quantities of combustible material, and with sparks being frequently generated, it is not surprising that we should have an occasional conflagration. The wonder is that it is so frequently avoided. If the object of this work had been to trace the ultimate cause of the late war, we believe it would have been seen that it was mainly through economic causes, such as the above, " that men have believed their good to lie in directions which lead to conflict rather than to harmony " which was the main cause of the terrible conflict.

We must, therefore, seek to construct our future society upon a " system of ideas which will not lead to conflict, but will naturally and inevitably involve co-operation. We must, in short, devise an education which will lead men to seek their treasure in things which gain by being shared, to find their joy in making and giving rather than in taking or destroying."

(116) International and Economic Peace and Prosperity could be Secured by the Spirit of Patriotism being Applied to Production.

If, now the war is over, we could divert into a channel of mutual service the same patriotic spirit that infected our countrymen from the peasant to the peer ; that made them willing to offer their lives for their country's honour and preservation, so that they were willing to serve their country to the best of their ability under the conditions already considered, we should not need any force of arms to keep open the markets of the world. Under such conditions, we could easily produce the goods others desire and require at such a price (at the same time paying our workers high wages) as would make it profitable for other countries to exchange their products for the product of the service of our workers. Our interests and theirs would be one, viz., to produce as much as possible for the benefit of all. It certainly would not be for the benefit of any one country that the others should be kept poor ; we should

all be the customers of each other, and the greater our wealth, and the greater our total production, the better customers we should be. Under such conditions, each country could freely develop those arts, industries and sources of wealth which they possess—in the manner best suited to their respective temperaments.

(117) Economic Burdens would Disappear if Jealousy and Friction were Removed.

With the great economic cause of jealousy and friction removed, there would be no such economic obstacles (that to-day are almost, if not altogether, insurmountable) which hinder the federation of the civilised world. If such a federation were established, there would be no need to maintain such armies and navies as have hitherto existed, and which have been such a drain upon our national wealth; and, thus, a very considerable sum could be diverted from the purposes of destruction to the production of wealth. Under such conditions, the amount we have hitherto expended, or rather invested, in scientific investigation and education could be immensely increased, and, at the same time, the taxes imposed upon the community would be considerably reduced.

CHAPTER XIII. INDUSTRY AND FUTURE WELFARE.

(118) WHATEVER we may think about the conscription of wealth, for lessening the burden of debt that the war has imposed upon us; or as to whether it would be better to increase the income tax or the death duties, we much fear that, in the end, under whatever system of taxation the funds are obtained, it is the workers in the country that have ultimately to bear the burden. Neither the conscription of wealth, nor an excessive income tax, would tend to promote production and the conservation of capital; but would have rather the reverse effect. It appears, therefore, that any direct attack on the power of capital defeats its own ends.

If the foregoing arguments are sound, then the industrial future of the world is mainly in the hands of the world's workers. We believe these arguments are sound and that they embody true principles.

If the workers will have the courage to apply those principles, there is no reason why any sum a few may have temporarily to forgo should not be repaid many times over in a very short period of time. They would speedily have the satisfaction of knowing that, by such a free exchange of their service, they had practically swept away the conditions which breed poverty and unemployment: with all their attendant evils, and had ensured a much more just distribution of the world's income.

If the new world of industry is to be vigorous and healthy, and is to recover speedily from the wounds of war, that recovery is only possible as there is harmony throughout its complex organism. For "we are many members but one body; and the eye cannot say to the hand I have no need of thee; or again the head to the feet I have no need of you."

The spirit of unity is essential to real peace and prosperity; but that spirit usually involves some form of sacrifice. If this appeal may seem to involve a sacrifice of long-cherished views and beliefs, it is but as it were the sacrifice of a crumbling foothold in order to stand upon solid ground. Indeed, we are ashamed to call it sacrifice—the

brief period of loss that a few might experience before abounding health flowed through the veins of our industrial life.

Millions of men responded nobly to the call of their country, and the greatness of their sacrifice has shown us there is that in manhood which is worthy of the glorious future for which so many have been led to "dedicate their lives, their fortunes, everything they are, everything they have."

It is up to us to see that this struggle shall not have been in vain, and to apply ourselves with might and main to the task of restoring the vast waste, in that spirit of unity in which alone a lasting peace can be assured.

Printed by Harrison, Jehring & Co., Ltd., 11-15, Emerald Street, London. W.C. 1

Los Angeles

This book is DUE on the last date stamped below.

Form L9–25*m*-9,'47(A5618)444

UNIVERSITY OF CALIFORNIA
AT
LOS ANGELES
LIBRARY

UC SOUTHERN REGIONAL LIBRARY FACILITY
AA 000 962 029 5

HD
6664
B88i